

Autonomous Territorial Unit of Gagauzia:

Analysis of the economic situation and
development potential

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1. SUMMARY

GENERAL ECONOMIC SITUATION OF ATU GAGAUZIA

The economy of the ATU Gagauzia is undergoing important changes. Even though a decade ago Gagauzia was predominantly an agrarian region, today its share in regional gross production and role as job conveying sector is diminishing. In the meantime the service sector is showing a positive growth dynamics. On the other hand, food industry is starting to play an important role. When speaking about food industry in Gagauzia it is first of all referred to alcoholic beverages. While it still remains poorly differentiated, the Gagauz economy depends heavily on climate conditions and on access to its key distribution markets. Despite the Russian embargo and halt of Gagauz export to this market, there have been no significant fundamental changes which could lead to market diversification. At its turn, approximately 50% of the services in Gagauzia are non-commercial. The regional authorities intend to change misbalances in the regional economy, however they should rather concentrate on stimulating competitiveness of the region as a whole, than stressing attention on industrial policy. Regional authorities have to change their focus from production sectors, but to eliminate aspects which have a negative influence on regional economy (bad roads, bureaucracy, and low skilled labor, lack of improvements in quality certification and implementation of European technical standards).

SOCIO-ECONOMIC DEVELOPMENT IN ATU GAGAUZIA

The income level and life standard of Gagauz population is similar to the situation in the southern part of Moldova. In some regards, Gagauzia has more advantages. The difference with average national indicators can be explained by higher incomes and easier access to public utility services in Chisinau (specifically to water supply and sewage). However despite a higher gasification rate in Gagauzia than in the rest of the country, majority of interviewed population indicated that they do not use natural gas because of its rising costs since 2006. The absolute majority of population can be attributed to average income group, and there is a positive reaction towards growing dynamics of incomes. Salary is the main income source for almost half of residents of Gagauzia, while pensions are sources of incomes for 1/5 of population. Nevertheless these incomes would not be enough for meeting the standard living costs without migration, which conveys better economic possibilities to the population. According to our estimations, every year, emigrants from Gagauzia send home 50-70 mln. USD. The health level of population in Gagauzia is worse than in entire Moldova and southern regions taken separately. This is coupled with significant economic losses. Despite having a large educational service system, which can deliver big number of graduates each year, it has not been adapted to the current market demands yet. Respectively it is not surprising that ATU Gagauzia is short on qualified human resources.

HUMAN RESOURCES

In the long terms this deficit can aggravate. During the past ten years, the population of Gagauzia decreased twice as fast as the population of the entire country. This is the consequence of migration, because the birth rate in the region was generally positive. According to reliable information, the total number of emigrants from Gagauzia totals to 20 thousands people. Compared to other regions of Moldova, emigration of young population and women in Gagauzia is higher and conveys important demographic risks. Emigration brings certain economic opportunities, however long term risks are higher and will result in shortage of qualified labor force and development of a phenomenon called "economic laziness" ("parasitizing on emigrants"). It may seem paradoxically but large unemployment in the region may be the consequence of guaranteed incomes from emigrants, which increase the minimal salary, which workers consider acceptable. Two thirds of unemployed people in Gagauzia constitute young population. Mainly these are graduates of vocational secondary schools located in the region. They are not looking for a job and cannot find one which meets their expectations. This is why during one or two years people who used to be yesterday graduates consider today emigrating. As a result, unemployment in Gagauzia is caused by conjecture rather than structural factors. According to conducted economic analyses, a lower remuneration in Gagauzia is mainly explained by low labor efficiency. Nevertheless, during the past 5 years, labor efficiency at some enterprises was growing faster than remuneration. This is why salary increase is not only possible but is necessary.

NATURAL RESOURCES

Having in mind that agriculture and food industry play an important role in Gagauz economy, they have to rely on natural resources, which determine the competitive advantage of these sectors. ATU Gagauzia has limited in volume but various spectrum of natural resources. There is a big pressure of anthropological factors on natural resources as high density of population, high rate of land development, long-standing settlements and anthropological use of territory, especially inadequate human attitude to natural resources. The climate conditions of Gagauzia are favorable for various agricultural crops, especially the ones demanding solar heat such grains, leguminous plants, industrial plants, grapes, fruits and vegetables. In the meantime, the region is liable to climate threats: hail damage, drought, dry hot winds, early or late frosts. Because of these threats there should be measures undertaken for diminishing their impact on economy. Gagauzia has significant reserves of mineral resources. Mainly these are rocks used for construction materials. However reserves from the past have not been explored yet. There also resources that are not being explored reasonably. These are wind and solar resources. The biological resources of Gagauzia are on the limit of extraction; several species of plants and animals are about to disappear because of deforestation, hunting and fishing. This will cause a serious damage for developing the tourism industry, which regional authorities are counting on.

CAPITAL RESOURCES

The lack of investment resources during the past decade resulted in destruction of producing facilities of Gagauz enterprises, which diminished the regional competitiveness. The low investments in economy can be explained by the fact that

when making capital investments people rely on private sources. In the past years capital investments were made at higher level and were coming from foreign investors. Unfortunately this source of investment was the most unstable during the entire period. However the financial sector of ATU Gagauzia is similar weak as in Republic of Moldova. The financial sector of ATU Gagauzia consists practically of bank institutions. There is only one insurance company in Gagauzia, and 9 branches of other insurance companies from Moldova. There is «Pro-Credit» operating in this region which offers micro-credits. Almost all Moldovan banks have their branches opened in Gagauzia, however they play a small role in financing the investments needs of companies is quite limited. As of 2007, these banks have financed only 8,6% (22 mln MDL in absolute volume) of the total investment in ATU Gagauzia.

REGIONAL INFRASTRUCTURE

In general terms the development level of infrastructure in ATU Gagauzia is similar to other regions in Moldova, except from some big municipalities. The region has a developed road infrastructure and railway. However the road pavement quality is low because money was invested neither in building new roads nor in conducting maintainance work. This caused a degradation of infrastructure, and today there will be needed more resources for its restoration than 5-6 years ago. The bad road infrastructure has a negative impact on local companies' work as well as conducting export-import operations. The Infrastructure Strategy for land transport 2008-2017 includes stipulations for restoring the national roads. However repairing local roads remains the responsibility of the local authorities, which will require significant financial support for accomplishing this task. According to our estimations, the repairs of the key road segments (connection of the urban centers with national highways) will require 200-250 mln MDL. The situation with the energy lines is fairly good. Majority of inhabited centers have access to land communication lines and mobile telephony. Internet access in ATU Gagauzia remains limited. At there same time there is only one internet provider in ATUG, which restricts the competition and offers of telecommunication technologies (TLT). Moreover the small distribution of TLT hampers implementation of these services into daily company activity. By neglecting the role of informational technologies, companies refuse without any pressure international exposure, and respectively diminish their competitiveness. The energy infrastructure is relatively developed in ATU Gagauzia, while the energy sector plays an important role in the regional economy. Basically all local communities have access to electricity and natural gas. During the past years there has a positive dynamics of the natural gas development infrastructure, and Gagauzia was taking leading places across the country in this regard. Nevertheless the sharp increase of prices for natural gas, limits consumption (specifically of natural gas). Therefore the investments made in this infrastructure have not been fully recovered yet. At the same time the price increase has a negative impact not only on population but also on region's companies. A higher price means serious challenge for companies to keep their competitiveness. Having this situation, a prospective would be exploring the solar and wind energy for diminishing the energy dependency.

PLANT CULTIVATION

The region has a favorable natural potential for developing the sector. Its exploration together with certain agro technical and economic decisions changed the area of cultivated land. In 2003-2007 the grain plantations increased 1,33 times, vineyards – 1,06 times, fruit – 1,13 times, vegetables – 1,44 times. In the meantime the area of forage crops cultivated decreased 1,61 times and sunflower areas – down 1,45 times. Half of the arable lands in Gagauzia are used for cultivating grains. The majority of arable lands are used for cultivating grains, sunflower, vineyards (84-85%), which confirms region's specialization. The frequent droughts have a significant impact on crop yield, which was at its lowest level in 2003 and 2007. The situation is worse with region's poor endowment with reserves (13,8%, while the normal reserve level should be twice as much), soil erosion, limited use of temperature resistant plants, limited water reserves, which limits technically and economically the irrigation.

LIVE STOCK FARMING

Animal breeding undergoes qualitative and quantitative changes in the framework of organizational, technical, investment difficulties and obstacles of limited skilled labor. In 2001-2007 sheep population increased by 10, 1%, pigs – up by 1, 42%, cattle – down 1, 48 times. In the meantime only production of poultry and mutton has been growing by 46, 4% and 28% respectively, while beef and pork production has been fallen. This is why in the long term these two sectors are the most promising. There are still opportunities for using highly productive animal and bird breeds. Having old technology and low skilled labor makes the region's sector highly inefficient. The optimistic scenario implies modern farms with application of leading management techniques at all levels of production process and specific marketing tools for increasing the sales efficiency of meat, milk, eggs on the national and regional markets.

FOOD INDUSTRY

The processing industry constitutes today the stimulus for development of Gagauzia. This argument is a fact that processing industry increased 1,36 times during 2001-2006 (from 47,7% to 67,5%). During this period, in Moldova the share of food industry in general decreased 1,16 times (from 47,7% in 2001 to 41,2% in 2006). The largest share comes to wine industry (absolute dominance in the sector), fruit and vegetable processing and flour industry. The processing of meat, milk and pastry is almost absent. This situation is a confirmation of temporary character of sector specialization in the region and reserves for developing these areas. The main obstacle for food enterprises is the lack of quality certificate, difficulties with circulating assets, application of primitive management and marketing techniques. These issues limit the possibilities for production and penetration to European markets. Therefore, the processing sector of the region has to evaluate the opportunities offered by the Autonomous Trade Preferences.

NON-FOOD INDUSTRY

Historically the non-food industry has been less developed in ATU Gagauzia. However during the past years it started to play an important role in the regional economy. This can be explained not only by fast growth of non-food industry but obvious decrease of food industry and agriculture after the Russian embargo on alcoholic beverages and dry year in 2007. Textile industry has a big share in non-food industry both from output and export points of view. It is displaying strong pace of development which is coming to its limit. They are determined by more expensive labor and emigration of cheap labor, which enterprises are using while working with customer's materials. This means that most part of value added created in branch is migrating to partner companies, while local companies continue doing small value added activities. Creating and developing brands, if local companies had departments of design and marketing could be necessary developing the branch. This could also convey additional profits and create new better paid work places, which would ultimately motivate the labor to stay at the enterprise and compensate the migration outcome in general. Another branch but rather small with a growing potential is the furniture industry. Furniture is being sold also outside ATU Gagauzia – both in Republic of Moldova and abroad. Increasing the exports remains a challenge because the International Quality and Management Standards have not been implemented yet. Along with this, the lack of qualified labor, business consulting services, expensive fuel and electricity, bad roads represent serious challenges for industry development. These issues threaten also the development of other industries such as construction materials and mechanical engineering. In both sectors companies evaluate the local demand and cooperate directly with foreign companies. There are some examples valid for the mechanical engineering branch. While making the local agriculture stronger, this will increase demand for production of some companies, which produce technical equipment and spare parts for it – due to demand for agricultural technical services. Together with companies, producing construction materials there should be other niches developed, to meet market demands and competitiveness of local and foreign companies. From the number of branches the least perspective appears to be tobacco processing. Not only Gagauzia but also Republic of Moldova is losing the competitive advantage of this branch, while its subsidizing can be efficient at expense of other branches.

TRADE AND SERVICES

There is a significant growing dynamics registered in the trade and service area in the region even in the entire country. However low incomes of the population constitute the main obstacle for developing the services with higher value added. A significant share of public utilities services in the total pool of charge services offered to the population equals to 45%, while consulting, technical and other services for supporting businesses are absent. The state educational services, post mail and telecommunication hold a high share as well. The lack of qualified labor in the service sector becomes an astringent issue. It was caused by fluctuations of supply and demand for it, low salary in this sector. Only in transport, telecommunication and financial intermediation the salary is higher than average for the region. However there are less than 1000 people employed in these fields. For a higher salary and increase sector competitiveness, entrepreneurs should focus more on delivering better quality services. Control over service quality delivered to the population fails to comply with basic standards and is even absent in separate regions. Therefore it

makes it difficult for setting norms and standards for entrepreneurship patent holders. However this situation creates a gap which can be filled in separate market niches where competition is limited or absent in general: business consulting services, specialized courses for computer work and accounting. The collaboration and support with regional and local authorities is important for developing these services and providing a minimum standard level of these services for population in each populated area in the region.

BUSINESS CLIMATE

The business climate in ATU is not very different from the one in Republic of Moldova. During the past four years it improved as a result of the regulation reform, which 55% of region entities testify. An important step was creating "single window", which facilitates business registration and cuts down the number of days for completing this procedure. However the business liquidation procedures last in time and expensive. This is why many companies rather than undergoing liquidation, submit statements with zero income. The most important challenges that entrepreneurs are facing relates to legislation: frequent and unexpected changes of legislation, lack of clear rules in certain areas, difficult to follow laws. The ATU Gagauzia legislation is not being published and cannot be accessed through Internet, which is an important obstacle between companies and regional authorities. High taxes – is the key obstacle for growing business. Taxes stayed high even after modifications in the Internal Revenue Code, which stipulated zero tax on reinvested income. Entrepreneurs showed their discontent also for the Law on fixed tax rate in ATU for certain types of activities. These issues convey the idea that in Republic of Moldova the social security and health care tax are one of the main obstacles. Even though there is separate set of laws in ATU Gagauzia, and the region is empowered to adopt laws for certain areas of economy, these measures are not always useful and practical. For example, to improve the business climate on the regional level, it will be suitable that regional administration eliminates unofficial obstacles – corruption, bureaucracy, unloyal competition – rather elaborate additional laws, which cannot be enforced. Upon conducting private interviews with company representatives from the region, it was revealed that corruption, bureaucracy and unloyal competition are the critical institutional threats, which administration has to take counter measures.

RECOMMENDATIONS

The analysis made in this research shows a series systemic factors, which can positively or negatively impact on the future economic development of ATU Gagauzia. We suppose that the following measures have the critical importance for economic development of the autonomy:

- Overcoming any sort of political confrontation with the government of Republic of Moldova and full scale participation of the region in the national political development;
- Developing own capacity for analyzing and monitoring the policy on the regional level and elaborating a statistical system on the regional level for adopting justified policies;

- Abandoning the branch principle in the political economy and taking measures for eliminating systemic threats, which have an impact on the economic development of the region (unloyal competition, corruption, bad road management, climate conditions);
- Maximal simplification of issuing permissions for constructions; simplifying the process of changing the land destination, quick issuing of licenses and introducing the "default" principle (the person can start his activity, if there has not been any claim from administration within established terms by legislation).
- It is necessary to cancel the control exercised by police and other bodies except from the crime investigations.
- Simplify tax system for all small and medium enterprises by establishing a fix tax rate and facilitating the rent of state property to entities outside of ATU Gagauzia.
- Monitoring the application of the National strategy on land infrastructure important for ATU Gagauzia and providing financial support for repairing local roads (at least 25-30 mln MDL per year for the next 10 years).
- Stimulating local companies to diversify their markets, launching sales agencies of ATU Gagauzia in Bucharest, Galati and Odesa; including ATU Gagauzia more actively into economic cooperation with other regions of Republic of Moldova for becoming member in the "Lower Danube" euro region;
- Adopting modern and ecological agricultural technologies, which will help to recover and preserve the land quality and making the transition to ecological agriculture as competitive branch for ATU Gagauzia;
- Diminishing the agricultural losses by promoting crop insurance, setting up the early weather conditions notification and adopting inexpensive measures for protecting the crops against harmful climate;
- Because of limited amount of water and soil salinization it is not recommended to develop large scale irrigation network. An option would be to promote energy saving irrigation technologies (mainly drip irrigation). The drought consequences can be diminished by correct execution of agricultural works, which would help to save the soil humidity and cropping plants which are more resistant to high temperatures;
- Developing new capacities for processing, collecting and storage of crops with temperature control for selling out in out of season; building greenhouses;
- The ATU Gagauzia winemaking can take another development turn if to consider gradual renovation of vineyards, with vines accepted on European market; facilitating vertical integration of winemaking and collaboration between winemakers from the region and across the country for adopting joint development strategies for brand promotion and market diversification. It is necessary to have outside consulting with European countries for adjusting

modern technologies, production capacities, marketing strategies for meeting the European consumer tastes and Gagauz production tradition.

- Facilitating the labor mobility across territory of ATU Gagauzia, developing professional educational and training system in ATU Gagauzia, allowing access to market new private and state educational institutions; creating mentor councils; granting access to foreign universities for providing educational services; including teachers and students of the Comrat university and Agricultural college into programs of academic exchange with EU countries (Tempus, Erasmus Mundus).
- Educate health care responsibility through social advertising, targeted at different social groups (young population, rural citizens, future mothers) and improving the ecological situation in the region (by evacuating chemical and electro-technical wastes, stored in the neighborhood of Cismikioi village in the framework of the international project aimed at removing transborder threats); establishing a municipal or state enterprise for waste management, which will be providing services to all local entities based on individually drawn contracts.
- Attracting local and foreign state and private investments (potentially in the framework of public-private partnership) for building water supply infrastructure, sewage lines, which is also important for rural area; monitoring the placement of animal farms in order to avoid the waste penetration into water sewage/supply wells.
- Increase the investment attractiveness of ATU Gagauzia by having local authorities and company representatives participate in all business and investment forums, carried out in Republic of Moldova; networking with international corporations and launch direct negotiations for disposing production capacities in the autonomy; creating an up-to-date informational portal ATU Gagauzia, where information will be published in several important world languages; developing an international marketing strategy for Comrat State University and elaborating a functional internet portal; revising the website of the ATU Gagauzia chamber of commerce in order to update it and publish information for local and foreign investors in English language; the leading companies may elaborate easy but functional websites, which represents the key factor which determines companies' image in modern times.
- Establishing within Comrat State University a center for Investment consulting and management and Center for agricultural consulting within Agricultural college in Svetlii village. At the initial stage these centers would be financially supported. In the long term it is important that centers start providing paid services. Launching these centers within universities is the only solution which can ensure their long term existence, building dynamic young business-elite, application of new management practices in business environment.
- Exploring the opportunity of ATU Gagauzia winemaking companies the possibility for export to EU. Taking into consideration the national interests of the

winemaking industry in Gagauzia, local companies can deliver substantial share in the export structure of Republic of Moldova. However to accomplish this it is necessary to implement the European quality standards at the enterprises willing to export to EU.

- Developing in ATU Gagauzia «small energy sector» by briquetting the vegetal wastes; testing this approach through an energy generating park in the western part of ATU Gagauzia; collecting and using the solar energy for heating water in state bodies, schools and hospitals; in order to diminish energy loss in the state institutions it is necessary to determine the points of energy loss.
- Developing the sector of commercial services in unexplored niche areas (taxi services, security, cleaning, catering); by expanding the network of supermarkets will generate auxiliary service businesses; starting foreign and state language courses; creating a tourist roadmap, which will go through the main wine cellars; providing support to developing consulting services, delivered to local companies (including consulting services, training and labor force profiling).
- Economy of ATU Gagauzia is characterized by weak diversification and heavy dependence on winemaking industry; improving the competitive advantage of this dominating sector is possible if implementing high sanitary, technical and quality standards and systems for upscale management (ISO), support of vertical integration of vineyards and winemaking in order to ensure quality control in the value chain; export market diversification for alcoholic beverages (mainly to Northern Europe, China, India, Middle East (supply of low alcohol content drinks) or developing new product lines (example can be, alcohol free or low on alcohol grape drink).
- Emigration cannot be curbed through administrative measures, however social and economic impact can be diminished by applying complex measures. Such measures are: increase labor remuneration, provide a sound framework for labor mobility from regions adjacent to ATU Gagauzia, developing training programs for new professions demanded on the labor market (mainly in the service industry); simplification of regulation burden for opening a micro-business by emigrants temporarily coming back home, specifically in the construction industry, repair works, providing economic conditions for women and young population by attracting investments in traditional and new sectors of economy; moderating negative impacts of the migration through mentoring and supervising programs for emigrants' children.

2. INTRODUCTION

This document contains a comprehensive analysis of the economy of ATU Gagauzia and was elaborated for learning about the basic tendencies and potential for region's development. The project was carried out in the framework of "Economic analysis of the Autonomous Economic Unit of Republic of Moldova and its potential for development». The project was implemented by Independent analytical center Expert-Grup in January-June 2008 with financial support of LGI-OSI program (Initiative for reforming the local administration and Open Society Institute (Budapest)) and Soros-Moldova Foundation. Project beneficiary – Executive committee of ATU Gagauzia.

The research structure and research issues were touched upon so that the document is found useful for strategic planning and development of the Gagauz autonomy. The research starts from general presentation of the gagauz economy compared to the development level of other regions Republic of Moldova: Chisinau, developing region (DR) North, DR Center, DR South (having in mind that there is not valid statistical data for urban areas across the Dnester as well as for Bender – DR Transnistria – were not included in the analysis). Authors examined region's contribution to industrial and agricultural output, importance of investments and basic fragile sectors of regional economy.

The second most important role authors give to appraising socio-economic situation the Gagauz autonomy. The subject of analysis is income, standard of living, education and healthcare. Authors examine these indicators in relations to economic processes.

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The third chapter covers research on human resources of the Gagauz autonomy and stars from a general demographic analysis. Migration, which has an important role in the economic development of the region, constitutes also a topic for research. There is a further analysis of the structure of human resources from the point of view of economic participation and employment structure by industry. This chapter resumes with discussion on labor remuneration and labor efficiency.

The fourth chapter reflects the endowment of Gagauz autonomy with natural resources, which can be used for economic purpose. Authors gave attention to the use and protection of mineral, wind and sun light resources. This is why there is a separate chapter dedicated to natural resources: most important sectors of Gagauz economy – agriculture and industry – to a great extent depend on quality of natural resources.

The next chapter deals with capital resources of the region. A separate place in it is given to banking sector, which is made of branches of main banks from Republic of Moldova. The need for separate understanding of the situation in capital resource area is motivated by the fact that majority of companies, included in the research considered that access to capital was one of the main obstacles to development.

Despite the superficial statistical data, there is a separate chapter on regional infrastructure, partly transport, energy and digital one.

In chapter seven there is a general analysis of the situation in the agricultural sector of Gagauz autonomy. Chapter eight contains analysis in the plant growing sector (by sectors), and chapter nine – reveals the situation in the livestock growing sector.

The logical chain of this research brings to food industry, which represents the key branch of the Gagauz autonomy. All aspects related to this industry were included in chapter nine. There has been an analysis made of the main sectors of the economy as well: winemaking, canned food production, pastry and bread making.

ATU Gagauzia has a non-food sector which plays a limited role. The non-food industry is represented by few textile companies, together with machine building enterprises and companies for producing construction materials. The analysis of their situation was included in chapter eleven.

Chapter twelve examines the service and trade sector of the Gagauz autonomy. It contains information on general situation registered in the sector, its qualitative and quantitative endowment with labor force. The authors determined the main obstacles which obstruct the sector growth and diversification.

There has been a short presentation of the business climate at the regional level made in chapter thirteen. There are also issues regarded which companies face in developing their business.

There is a separate chapter (14) for a comprehensive SWOT analysis of the regional economy. The reason for including SWOT analysis into separate chapter is because it combines all important areas and sectors of the autonomy. The authors have outlined weak points and threats for ATU Gagauzia as well as ways to overcome these obstacles. While analyzing the strong sides and opportunities for the region authors emphasized ways to overcome these obstacles and suggested solutions for exploring the opportunities.

To explore the existing potential for development in every important chapter of this report there have specific recommendations made, targeted at regional administration and Gagauz companies. The general recommendations have been combined into separate chapter (15).

When elaborating this document authors used statistical data, submitted by regional authorities. Much data is not aggregated on the regional level and could be found in publications of the National bureau of statistics. The group who was working on this research used additional documents for collecting data, necessary for analysis: regional sociological survey (conducted by CBS-AXA with participation of 540 respondents. The survey is representative for regional level (with error margin 4%), business survey (CBS-AXA, 120 respondent companies), local surveys conducted in communities (conducted by Expert-Grup, 20 respondent mayor councils), and survey in the bank sector of the region (conducted by Expert-Grup, 7 respondents).

While preparing this research at the initial phase of the project, there were 3 focus groups conducted in Comrat (with participants from non-governmental organizations, producing companies and representatives of the local public administration). Also, there have been 4 trips to urban centers of Gagauzia (Budjac, Kirsova, Baurci, and

Svetlii). Especially useful were 8 interviews with directors of several companies from and 3 interviews with representatives of educational institutions from the region.

Authors are grateful to all public administration bodies ATU Gagauzia, which submitted statistical data, provided their insights over project results and contributed with significant logistical and analytical support for accomplishing the project. Authors are exceptionally thankful to Vitalie Kiurkciu and his team, head of the Economic, trade, service and foreign development division of ATU Gagauzia. It is necessary to mention, that authors are responsible for analyses and conclusions made in this report.

3. GENERAL ECONOMIC CHARACTERISTIC OF ATU GAGAUZIA

According to art. 1 of the law about special legal status of Gagauz Yeri¹– it is autonomous territorial unit (ATU) with special status for self-determination of the Gagauz people, which is part of Republic of Moldova. According to the stipulations of this law, the ATU administration is empowered with authority, in the economic and fiscal areas. Having this, it is important to study the economic situation in the region, as the regional administration has various instruments which impact the economic situation in the region, unlike restricted intervention possibilities of the regional authorities.

The structure and dynamics of the economy of ATU Gagauzia cannot be described with traditional indicators or production output such as GDP– because they are simply absent. The national bureau of statistics of Republic of Moldova has not elaborated yet the methodology for appraising regional gross output, while the statistical bureau of ATU does not have enough resources and information (mainly related to import and inter-regional flows) in order to make independently these calculations. Having the available information, it is obvious that the service sector is dominating by input of value added in the regional economy. However the industrial and agricultural input can be correlated to regional gross output.

Table 1 Economic indicators across Republic of Moldova and regions of development, 2007

	Ind out mln MDL	G y c a v e b l t	Inves in capit mln M	Const works, MDL	Fre tra ta th	Pas tran atic pec	Re sc ge m M	Pa se pre to po on ML
Total Repu Mold	195	43	1276	7106,2	49	103	16	93
including, %								
DR Chisinau	53,	0,	56,7	62,0	58	58,2	56	61
DR N	24,	37	15,8	12,1	11	22,7	20	16
DR C	15,	18	16,8	15,7	25	12,4	13	12
DR Sc	3,5	32	8,9	8,7	3,7	6,4	6,	6,7

¹ Law of Republic of Moldova №344 from 23.12.1994.

DR Gagauzia	2,8	1,1	1,8	1,4	0,8	0,8	2,0	3,0
DR Transnistria	X	X	x	x	x	x	x	x

Note: * – The table does not reflect data on DR Transnistria, because of lack of statistical information;

** - only enterprises, which employ more than 20 workers.

Source: calculations and estimations made by Expert-Grup based on data of the National Bureau of Statistics of Republic of Moldova.

Overall, in comparison to the other four regions of development of the Republic of Moldova, the ATU Gagauzia plays a relatively limited role in the national economy. However the autonomy has leading places by manufactured amounts of some products (e.g. in wine production – more than 20% of the national production volume). According to the preliminary evaluations, in 2007 the share of Gagauz industrial output in the total national output consisted 2,8% (Table 1), while in 2006 it was 3,6%. A similar share applies for the retail sector and service industry. The investment in the fixed capital and in construction industry were 1,8% and 1,4% respectively, from the total values across the country. The share of transport services in the ATU Gagauzia was even less: 0,8% from the national turnover of the sector.

The situation is more favorable for the ATU of Gagauzia if to compare with other districts and municipalities, rather than at the level of large regions. Such a comparison would bring out relatively high industrial and agricultural potential of the ATU Gagauzia. According to the absolute volume of the industrial production in 2005 (i.e. before the ban of imports of alcoholic beverages to the Russian Federation) the ATU Gagauzia was developing faster than other regions of the Republic of Moldova. However it lagged behind the Balti region (by 3 times) and Chisinau (by 12 times). Looking at the production output per capita of population, Rezina was also ahead of Gagauzia.

Nevertheless, in 2006-2007 the industrial crisis in ATU Gagauzia was the most painful and compared with other 15 districts from the industrial point of view (with an annual production over 200 mln. MDL). This is a proof of a weak diversification of the Gagauzian economy. This region is vulnerable to any economic or non-economic shocks. The economy of the region had to suffer as a result of the climate factors (mainly because of the drought) and trade barriers. The poor diversification of the regional economy is caused by the following:

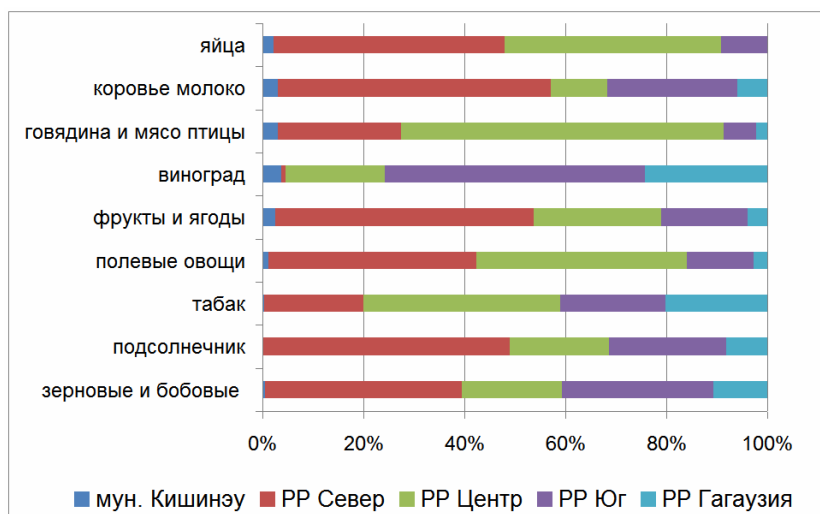
- The industrial production is dominated by winemaking industry. This indicator fell down by 84% in 2005 after the Russian ban on Moldovan alcoholic beverages;
- The structure of exports per product groups reflects the same scenario—68% of the Gagauz exports represent alcoholic beverages, which is less than in 2005, when the share of these products was 74%;
- Until 2003 the rate of geographic concentration of the Gagauzian exports has been growing; at that moment two thirds of exports were absorbed by Russian

market; year 2004 is the starting point for market diversification, while 2006 brought trade collapse. Respectively the share of Russia in the trade balance dropped to 3,4% in 2007;

- Producers and exporters of the ATU Gagauzia are not capable to establish long term relationships with partners from other countries. From about 50 export destinations, based on statistical information for 2001-2007 only Poland was the market when exports were constantly increasing, while in other cases there have been significant fluctuations.
- The service sector is dominated by the state public services, while the role of the private services is moderate; e.g. the share of public utilities represents about 45 % of the volume of sales in the service sector.

The agricultural sector of the ATU Gagauzia is mainly focused on cultivation of crops with a low value added and less perspective (Figure 1 Structure of agricultural output by regions in the Republic of Moldova, % from the total volume, 2006 year). The share of the region in the national production of grain is 10%, the sunflower output- 8%², tobacco output-20%. Supporting the tobacco industry in the hope that it will bolster autonomy's economy is more of a short term strategy. On the long term it is clear that Moldova will have to join the international campaign against smoking, which will translate into higher expenditures for tobacco producers. In the end, local producers of finished tobacco goods are not competitive anymore compared to foreign products and there are no positive perspectives for improving their competitiveness.

Figure 1 Structure of agricultural output by regions in the Republic of Moldova, % from the total volume, 2006 year



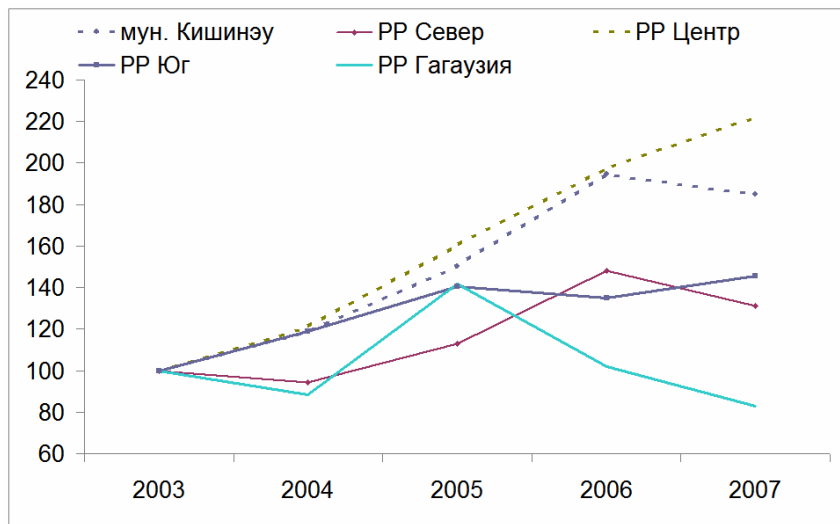
² These calculations are based on the data for 2005-2006. It has been a drought year in 2007 that is why it would be misleading to use it as a reference point when describing agricultural potential.

Sources: Expert-Grup calculations based on the statistics of the National Bureau of Statistics of the Republic of Moldova

Despite the favorable natural conditions for cultivating certain vegetables and heat-loving fruits (watermelons, melons, peaches, apricots), the ATU Gagauzia does not explore these advantages: its share is only 1,5-2,5% in the national production of vegetables and 4-5% - in the national production of fruits. Because of lacking capacities for processing and depositing the primary agricultural output, there is a "migration" of the value added to other regions of the country and abroad. For example, despite having cultivation areas, that would permit to produce 22-25 thousands of tones of sunflower seeds (about 10% of the national capacity), they are mainly sold for processing in other regions.

The difficulty of the regional economy is mainly the caused of lacking investments in production capacities. Unfortunately, in 2003-2007 the investment in the Gagauzian economy were increasing slower than in other four regions and 2,3 times slower than the country average (Figure 1). ATU Gagauzia is the single region in the Republic of Moldova, where in 2005-2007 the investments in the fixed capital in real estimates have decreased. The ATU Gagauzia risks to lose its production capacities and advantages compared to other regions of the country.

Figure 1 Investments in fixed capital by regions of the Republic of Moldova, 2003=100%



Sources: Expert-Grup calculations based on the statistics of the National Bureau of Statistics of the Republic of Moldova

It should be taken into account that investments with direct economic impact decreased in 2005-2007. These were investments in equipment, technical appliances and transport. This decrease was mainly due to the revision or the transfer of the investment decisions by the local and foreign investors. The trade disruption with Russia lead to a hold in investments decisions and difficulty to mobilize own resources, as well difficulty for attracting banking capital. Despite opinions, the investments

financed from the budgetary resources of ATU Gagauzia were not smaller than in other regions. On the contrary, by 2006 the share of these sources was higher than the average for the country (Table 2).

There has been a sudden change in 2007, when investments in the three regions (South, Center and North) increased, while in the ATU Gagauzia –decreased. Taking into consideration the deficit of resources, financed from the regional budget, reaching previous level of investments is possible only with private investments, through increasing the investments attractiveness of the region to foreign investors and investors from the other regions of the Republic of Moldova. Meanwhile, it is clear that some of the investment needs (e.g. in infrastructure) can not be covered by private resources, as these projects do not have a commercial incentive for the. This where regional bodies should work actively with foreign donors and improve relationship with the Government of the Republic of Moldova for attracting a higher volume of public resources in investments projects of ATU Gagauzia. The fact that political relationship between Chisinau and Comrat is not very good; it has a negative on autonomy's capacity to draw investors, who at their turn are not willing to exposing their capital to risk.

Table 2 Share of budget investments, in the total of volume capital investments, %

	2	2	2	2
Total	8	9	1	1
Chisinau m	7	7	1	4
DR North	8	1	9	1
DR Center	1	1	2	3
DR South	1	1	1	3
DR Gagau	3	1	1	1

Sources: Expert-Grup calculations based on the statistics of the National Bureau of Statistics of the Republic of Moldova

As a destination for the foreign investments, ATU Gagauzia does not have a distinctive national or international "popularity". A random research, conducted in the framework of this project, has shown that none of the leading companies of the ATU Gagauzia has a functional web site. The situation is not different for state bodies. There is no program for attracting foreign investors, while some of the companies currently working in the region are thinking about leaving. Such a trend is explained by a set of causes. Among them is the lack of the qualified working force, a relatively limited product market and poor transport infrastructure. There are also several institutional factors that do not depend on the endowment of production capacities (corruption, frequent controls performed by the state bodies, bureaucracy and lack of transparency). In the fight for investments the authorities should use all instruments for gaining investment advantage compared to other regions of the Republic of Moldova and even neighboring countries.

There should be more attention paid to the fact that the business culture of the ATU Gagauzia, as throughout the country, is not in favor of the long term business relationships. The ATU Gagauzia businessmen are characterized as being conservative; they are not trustful and are less open for improvements. The marketing strategies are passive, while companies usually monitor the market instead of actively controlling it and the consumers. The autonomous unit's business-elite has great capacities for the long term development of the region. But these capacities should be supported and backed up with incentives. This can be achieved through direct dialog and indirectly, through the facilitation of the entry of new companies to the market, which would increase the competition and spur up entrepreneurship in ATU Gagauzia.

4. SOCIO-ECONOMIC DEVELOPMENT OF THE ATU GAGAUZIA

POPULATION INCOMES

There has been no systematic research of the household's incomes in the ATU Gagauzia, while the Study of the household's budget performed by the National Bureau of Statistics is not representative at the level of Gagauzian unit. Nevertheless, taking into consideration the structure of the Gagauzian region, it can be stated that the level and the structure of the population's incomes of Gagauzia are also characteristic for the Southern region of the Republic of Moldova. According to the official statistical data, in 2006 the disposable income in the southern region consisted 740 MDL or 88% of the average national level and 65% of the disposable income in Chisinau. The structure of incomes in the southern region differs significantly from the structure on other regions across the country (Table 3).

Table 3 Disposable income of population of Republic of Moldova, by geographic regions, 2006

	TOTAL	NORTH	CENTRAL	SOUTH	CHISINAU
Disposable income, MDL	870	740	740	740	1140
including the sources, %					
Income from salary	44	22	33	33	63
Incomes from individual agricultural activity	11	22	22	22	11
Incomes from individual agriculture activity	77	66	88	55	100
Property income	0	0	0	0	0
Pensions	11	11	11	11	88
Other social benefits	0	11	11	0	0
Money transfers	11	22	11	11	77
Other incomes	44	44	33	44	55

Source: National Bureau of Statistics of the Republic of Moldova

The statistical data gives the opportunity to make a comparison between the ATU and other regions only from the point of view of salary incomes. In Chapter 2 it is indicated that after 10 years, the salary in the region increased slower than the average for the country. Thus, the salary difference from the end of the '90s has only widened. In 2007 the salary in Gagauzia was 70% of the average national salary and

equaled to the same average salary as in the southern region³. However, the current analysis does not fully reflect the situation, as the salary represents the main source of income only for 44,5% of population in ATU Gagauzia (Table 4).

The data provided in Table 3 also shows that the alternative sources of incomes could significantly compensate the difference between the salaries. For example, the pension gap is even wider than for salaries: in 2007 the regional pensions were 93% of the national level. As it results from the survey "Current situation and the socio-economic development perspectives of the ATU from the point of view of population" (further – *Regional sociologic research*), only 23% of Gagauz population receive pensions and social benefits.

Table 4 Distribution of answers to question: «What is the primary source of family income?», %

		Agric work	Non- agric work	Unemp	Pen
Salary		52,1	83,1	27,3	5,4
Pension		6,2	4,3	20,3	81,5
Other social benefits		4,2	0,6	4,6	4,3
Incomes from agricu		12,4	0	5,4	1,1
Incomes entrepreneurship		0	0	0,8	0
Money transfers members of your who are abroad		14,6	11,25	25	7,6
Other money tr from you relatives inside of the countr parents' or children'		6,2	0	10,2	0
Other		2,1	0,6	0	0

³ Here and thereafter the southern region includes the districts of Basarabeasca, Cahul, Cantemir, Causeni, Cimislia, Leova, Stefan-Voda and Taraclia.

Total		100	100	100	100
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Sources: Survey "Current situation and socio-economic development perspectives of the ATU from the point of view of population", performed by CBS-AXA at Expert-Grup request (further – Regional sociologic research)

The money transfers from the emigrants are the main source of incomes for 17,5% families of the ATU Gagauzia, while their influence is more significant than pensions and other social benefits. The Regional sociologic research has revealed that over 40% of families in Gagauzia depend more or less on the money transfers from abroad (Figure 2). According to our evaluations, the general amount of money transfers that came from Gagauzian emigrants, were 50-70 million US dollars⁴ in 2006. Money transferred by emigrants, boost consumers expenses of many households and plays a significant role in reducing the poverty and supporting the economic growth in the region.

Figure 2 Distribution of answers to question «What is the share of money transfer of your relatives working abroad in the family income? »



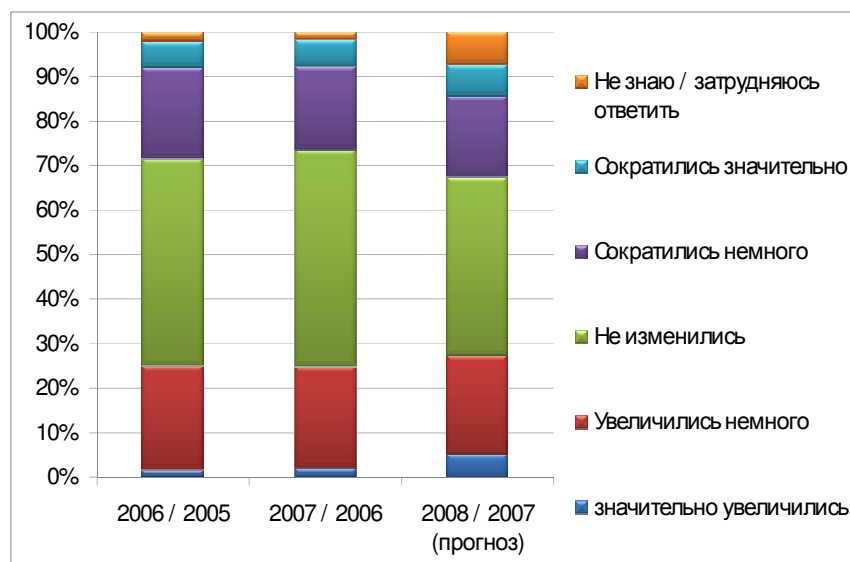
Source: Regional sociologic research

Only 3% of families indicated that their main source of income were gains from agriculture activity, while 4,5% families depend mostly on the support of their relatives. Individual entrepreneur activity plays an insignificant population's incomes structure. This fact is explained by a relatively low density of small and medium companies in the ATU Gagauzia: the density of SME in Gagauzia is 6,5 units per 1000 residents, which is 40% higher than in the southern, central and northern regions, but 5 times lower than in Chisinau. Only 2,3% of respondents declared that the revenues from entrepreneurship– are the main source of family income. This statement is supported by the fact that only 2,6% interviewed persons declared that they or their families have their own and actively working business, while 2,6% declared that they have a start-up business. Almost 88% of respondents pointed out that they or their families do

⁴ According to the results of the survey, performed by CBS-AXA in 2006, the share of emigrants from Gagauzia working abroad was 7% of the total number of Moldovan emigrants, while their money transfers account for 5,1% of the total amount of transfers made by Moldovan emigrants. In regard to the balance of payments in 2006, the general incomes transferred by the emigrants totaled 1180,9 mil. USD.

not run businesses and that in the near future they do not intend to start one. We suppose that the received answers reflect the general low level of the population's trust in the business environment in ATU Gagauzia which is caused by lacking knowledge and skills necessary for opening private business, lack of trust in their own forces etc. Meanwhile, as it results from the surveys in the region, this situation is also caused because of high dependence of population on incomes coming from abroad.

Figure 3 Answer distribution to question «How did you family income change lately?»

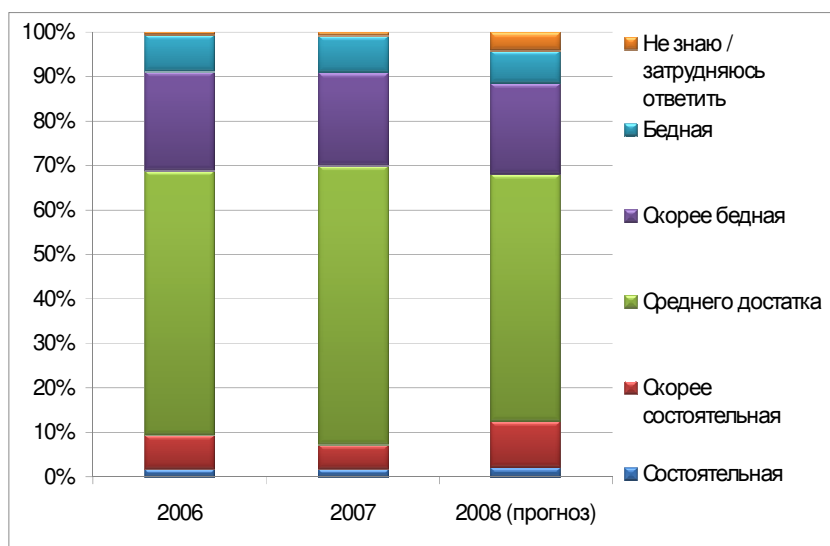


Source: Regional sociologic survey

The data collected during the regional survey shows that revenues of majority of population (47-49%) have not changed in 2006-2007, while about 40% of the population does not have any expectations referring the change of incomes in 2008 (Figure 3). In 2006, 26,2% of the population witnessed decreasing revenues, while 25,1% of people increased their incomes. The negative balance of incomes in 2007 has improved overall, and there are positive expectations for the balance in 2008. Because of the poor economic diversification of the rural areas, the income balance of rural population turned down compared to the incomes balance of population in the three cities.

Meanwhile the absolute majority of the population perceives their own wealth in 2006-2008 as medium (Figure 4). The share of pessimists has decreased from 30,6% in 2006 to 27,8% in 2008, while the share of optimists has decreased from 9,4% in 2006 to 7,2% in 2007 (the effect of drought). Also the positive expectations for 2008 rise up to 12,5%. It should be emphasized that respondents' expectations for 2008 are less related to the incomes coming from abroad. Consequently, it can be assumed that in 2008 money transfers from emigrants will increase slower than in previous years.

Figure 4 Distribution of answers to question «How would you describe your family prosperity?»



Source: Regional sociologic survey

STANDARD OF LIVING

Currently there is qualitative data regarding the standard of living in the Gagauz region. According to the population census conducted in 2004, a series of indexes referring to the standard of living in Gagauzia were lower than the national average, but on average were higher than the indexes for the region (Table 5). Particularly, the aggregate share of households, which have access to the state natural gas supply network, in 2004 it was twice higher than the national and southern averages. Even if the number of families, whose houses are connected to the central heating system is much lower than the national average, a higher level of gasification compared to the rest of the country has given the possibility to many families from ATU Gagauzia to install autonomous heating systems. The access to water supply and sewerage systems was lower than the average across the country, but higher than the average for the southern system. The rate of covering with fixed telephony is higher than the average country level and consistently higher than in southern regions; the rate of access to the television does not differ significantly, while the access to the computer appeared to be twice lower than the national average.

Table 5 Households by availability of resources for organizing the dwelling area, 2004, % endowed from the total number of households

Households that have...	Rep of Mold	Southern	ATU Gagauzia
State gas supply network	37,0	29	74
Centralized heat supply	19,1	2,	1,
Private autonomous heat	14,1	18	39

systems			
Water supply	37,4	28	31
Sewerage system	32,7	20	22
Central supply with hot water	16,7	1,	1,
Hot water from private installatio	10,9	11	13
Telephone	53,1	4	61
TV	82,2	80	83
Computer	3,3	1,	1,

Sources: The results of the population census, performed in October 2004 and the calculations of EXPERT-GRUP

The results of the regional survey in 2008, compared with the results of a similar research performed in august 2007 at the national level confirmed, in general, the advantages and disadvantages of ATU Gagauzia revealed during the population census in 2004 (Table 6). Particularly, the ATU Gagauzia population still has a larger access to gas supply network, to heat supply networks (mainly due to the autonomous heat systems), Internet and computers (in 2004 the situation was worse), fixed and mobile telephony and television. Nevertheless, despite the physical access to a series of services, the level of consumption can be lower, as it happens for example with the natural gas.

Table 6 Population access to public utilities and amenities, % from the total number *:

	Completely at		Fully available	
	RM	ATU	RM	ATUG
Water supply	46,	38,2	33,6	31,0
Hot water	75,	80,9	9,0	6,8
Sewage system	61,	72,6	21,6	11,5
Gas supply network	43,	10,0	36,1	75,4
Public transport	8,0	21,9	35,9	21,2
Roads of acce quality	8,8	28,2	18,2	7,0
Electricity	2,2	1,7	80,2	89,0
Heat supply	61,	30,4	15,7	36,1
Internet	84,	73,9	6,6	14,2

Fixed telephony	14,	7,9	69,1	85,1
Mobile telephony	52,	38,2	29,5	44,2
Computer	78,	70,9	12,5	18,3
Television	24,	8,7	52,1	76,7

Note: * - the sum of the percentage indexes, horizontally, for the Republic of Moldova and ATU Gagauzia, respectively, are lower than 100%, while respondents could chose and other answers, for example, "Available in a small volume», «It is hard to say" or "More or less available".

Sources: Regional sociologic survey and The report about the situation in the country – 2007 according to the data at the national level.

On the other hand, population of the region is limited in their access to water supply and sewerage networks, public transport and good roads. During the interview with ATU Gagauzia companies, performed during the preparation of the current research, the respondents have enumerated among the obstacles for company development– bad roads, poor public transportation system and a limited access to water supply and sewerage system. As in the entire country, there is an obvious difference between the urban and rural areas in ATU Gagauzia concerning the access to services. A special inequality in the autonomous unit is remarked about the access to water supply, hot water, sewerage system and natural gas.

POPULATION'S HEALTH

Population health is not just an important index of the standard of living, it is also one of the factors that determine the productivity of the occupied population's labor force. Thus, population health depends on the environment, living standards, risk factors, the development of the state health protection system etc.

Table 7 Public health development indicators, 2006

	Average per districts	ATU Gagauzia	Republic of Moldova
The number of bed-places in hospitals per 10 thousand people	32,7	38	3
Number of doctors, per 10 thousand people	16,1	20	1
Number of the medical personnel in the medium chain, per 10 thousand people	50,1	65	5

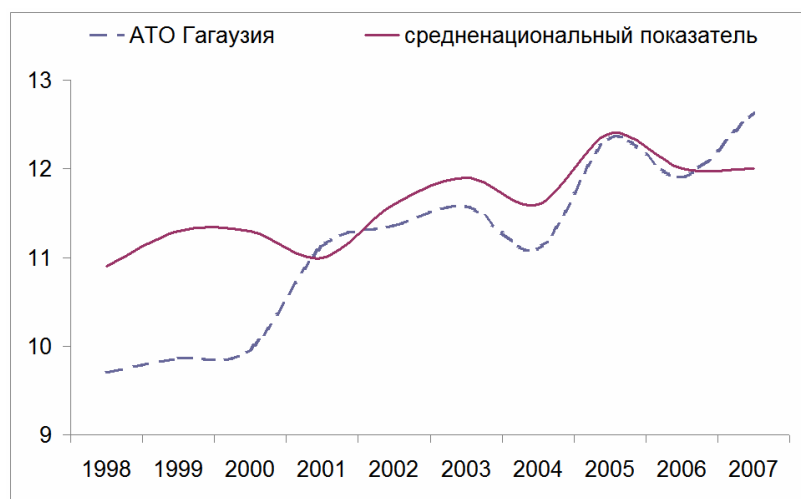
Source: National Bureau of statistics of the Republic of Moldova and Expert-Grup calculations

The existent statistical data proves that from the point of view of the development of the medical infrastructure and the number of specialists, the situation in ATU Gagauzia

is better than the average level in the country's districts and in the South development region (Table 7). This does not refer only to the number of bed-places in hospitals, but also to the number of doctors and assistants. Meanwhile, the survey about the development of the local communities, performed by Expert-Grup in ATU Gagauzia in March 2008, has revealed that the existent infrastructure is not very good and in some places even very bad. The biggest issues are related to the endowment of the medical institutions with equipment and medicines. The majority of the interviewed mayors have evaluated the endowment of the medical institutions with equipment and medicines as "very poor" and "poor". Meanwhile, in a number of villages there is a shortage of medical staff with university education and of the assistance staff. Thus, the first impression, that there is medical staff with university and college education available in Gagauzia, is due to the district hospitals, where the salaries are higher and work conditions are better than in village medical institutions.

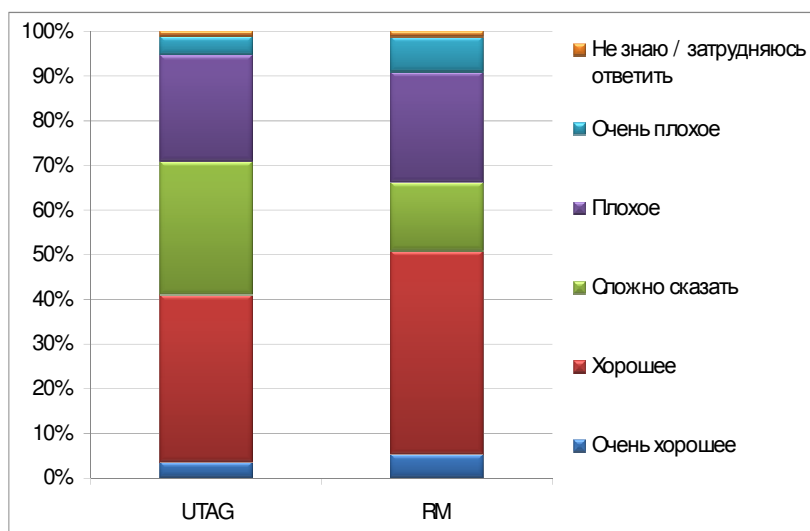
Taking into consideration the enumerated aspects, it is not surprising that during the last ten years health protection in ATU Gagauzia has been decreasing. A proof for this, is the change of the death index in ATU Gagauzia. In 1998 this index was lower than the national average, than in 2007, it was above the average (Figure 5).

Figure 5 Death rate change in ATU Gagauzia and in Republic of Moldova, %.



Source: National Bureau of Statistics of the Republic of Moldova and the Statistics Department of ATU Gagauzia

Figure 6 Distribution of answers to «How can you describe your level of health?»



Note: ATUG –ATU Gagauzia, RM – Republic of Moldova

Sources: Regional sociologic research and the Report on the situation in the country – 2007.

In 2008 the citizens of Gagauzia subjective perception of their health situation seems to be less positive than the overall country level (Figure 6).

The indexes of general sickness, reflected in the Table 8, prove that in 2007 the health level in ATU Gagauzia compared with the national and southern districts average levels has been worse. In Ciadir-Lunga and Vulcanesti districts overall healthcare situation is worse than in Comrat. Above all, recently, the health care problems in the Vulcanesti district became worse, where sickness distribution rate in 2007 was 85% higher than in the Comrat district and 8% higher than in Ciadir-Lunga, while morbidity – by 95% and 30% higher than in the Ciadir-Lunga district and by 22% higher than in the Comrat district and by 30% higher than the national average. This can be the cause of the ecologic situation in the district, which is determined by buried pesticides and condensers near the Cismichioi village. The geo-ecologic and geo-medical researches, performed in this area in the late '80s revealed a high concentration of harmful composites in the soil, subsoil waters and reservoirs, high rate of cancer illnesses, immune system illnesses and a high number of children with physical and mental handicaps⁵.

Table 8 General sickness distribution and morbidity rate, per 10 thousands people

General sickness distribution rate				
Average for the Republic of Mol districts				

⁵ Report about the situation in the country - 2007.

Average for the Southern DR				
Average for ATU Gagauzia				
General morbidity rate				
Average for the Republic of Mol districts				
Average for the Southern DR				
Average on ATU Gagauzia				

Sources: National center of healthcare management and the calculations of Expert-Grup

The death rate of the active population at the national level is higher the average indexes of the southern region. The structure of the death causes does not significantly differ from the national figures. Still, in ATU Gagauzia a higher number of deaths are because of tumors. If by 2004 ATU Gagauzia was performing better in this regard, than the entire country, than in 2005 the situation changed. In 2007 the Comrat district was third in Republic of Moldova by the number of deaths from tumors (after Floresti and Drochia districts), while in 2007 the number of these cases increased by 17,6%. This is a proof that the district authorities should pay more attention to this issue, especially that there is a trend of "rejuvenating" oncology diseases and there is a fast increase of the death rate among the active population.

The economical losses which ATU Gagauzia incurs are due to population health level which is relatively worse compared with the entire country. It is difficult to make a quantitative assessment of these losses, but it can be assumed that these losses are 55-60% higher than in districts of the southern regions and 60-70% higher than overall in the country. These assumptions can be made calculating the difference of the number of working days lost due to the stationary and out-patient treatment of people. In 2007 there were 3680 days of days off in ATU Gagauzia per 1000 active people, compared with 2200 days on average for the country's districts and 2365 – for the southern districts of the region.

EDUCATION

The level of education of the Gagauzian population is relatively normal (see Table 9). Due to a high percentage of people with a high school degree, the educational profile of the Gagauzian region is much closer to the national one, compared to the southern region. Taking into consideration the aggregate weight of the rural population in ATU Gagauzia, the share of the population with a university degree is high – 8,2%. In the southern regions this index is high only for Taraclia district (8,9%). Consequently, half of the respondents from the Regional sociologic research emphasized that education plays a significant role and accounts for their further success.

Table 9 Population between 15-64 years old by level of education, % from total number

		Unes	Voc al sec y				Uned	
Republ Moldo		11,	11,				0,8	
ATU Gaga		8,2	11,				1,4	
South region		7,1	11,				0,9	

Sources: National Bureau of Statistics of the Republic of Moldova and the Expert-Grup calculations

A successful educational profile and a positive approach of the population towards education is the reason of a relatively diversified education sector in ATU Gagauzia. Only Cahul district in the southern region has a larger education sector than in Gagauzia. In the Gagauzian autonomous unit there are 58 kindergartens, 55 day schools, gymnasiums and lyceums, 3 vocational secondary institutions, 2 colleges and 1 university. In 2003/2004 the education sector comprised 38,6 thousand studying children and students, but this number has been constantly decreasing, to 35,3 thousands in 2006/2007.

Meanwhile, the number of students studying in vocational secondary institutions, colleges and universities has increased from 3446 in 2003/2004 to 3959 in 2006/2007. About 2/3 of them have studied in the Comrat State University. In 2007 310 students have graduated 3 professional institutions, 94 students have graduated 2 colleges, while 429 people – the university.

To what extent do the 6 educational institutions meet the needs of the local economy? According to the existing statistical data, these vocational secondary institutions do not meet the demand for specialists on the regional labor market.

First of all, from the point of view of the number of specialists (1147 in 2007), the supply at the current moment exceeds the need of the Gagauzian economy, that is why these educational institutions should attempt to become attractive for the young people outside Gagauzia. From the current statistical data, it is clear that the number of new working places, created in the Gagauzian region, is not so big compared with number of gradates. Meanwhile, it should be taken into consideration that a significant number of enterprises prefer to hire people who already have a certain professional experience, thus avoiding hiring fresh graduates. The vocational secondary institutions do not have the required technological infrastructure and do not have sufficient human resources for preparing competitive specialist (Table 10). Thus, "supplying" unemployed people, who are obliged afterwards to become emigrants, the Gagauzian educational system "works" for other countries.

Table 10 Endowment level of the vocational secondary institutions in the ATU Gagauzia with teachers, teaching materials and computers, % from the required amount

	Teachers	Materials	Computers
Comrat State University	93	80	60
Comrat pedagogic college	100	93	70
Agro-technical college from the village	90	90	50
Vocational secondary school Comrat	70	50	0
Vocational secondary school Ciadir-Lunga	75	91	17
Vocational secondary school Vulcanesti	75	50	0

Source: The statistics department of the ATU Gagauzia

Secondly, the required average level of education of the labor force is much lower than what the education system offers. Half of the ATU Gagauzia graduates, have a university degree. Meanwhile, the enterprises and the organizations of the autonomous unit are looking for workers with a technical skills, rather than specialists with a university degree. From 1158 unemployed persons, which were hired through the Labor Force Occupation Agency from ATU Gagauzia, 965 have been hired as workers (for which one obviously does not need a university degree), while 193 employed people– received jobs which require a university degree.

And finally, the structure of the specialists does not meet the structure of the demand on the regional labor market. The system of vocational education in ATU Gagauzia puts more emphasis on the “prestigious” specialties (Law, accounting, management with a relatively low qualification) or agricultural. Meanwhile, there is a higher demand for engineer professions on the labor market of the region, rather than economics and agricultural. According to company representatives interviewed during the study, it would be better that regional educational institutions prepare engineers-constructors and engineers-mechanics. Meanwhile the regional economy is in desperate need for specialists from the developing service sectors.

Table 11 Net number of employed workers *, by sectors of activity

Agriculture, hunting and forestry				
Processing industry				
Electric and heat energy, gas				

water supply				
Construction				
Wholesale and retail trade ¹				
Hotels and restaurants				
Transport and communication				
Financial intermediary				
Operations with real estate and service for companies				
State administration				
Education				
Health care and social services				
Other public, social and personal services				
Total for ATUG				

Note: * - the difference between the employed population and the number of fired employees during the year

Source: Expert-Grup calculations from the data provided by the Department of statistics of the ATU Gagauzia

The number provided in Table 11 reveal that during the last four years the most labor places that were closed were in agriculture, while in the processing industry, construction, trade and hotel business, financial activity, real estate, education and other areas the demand for labor has increased⁶.

CONCLUSIONS AND RECOMMENDATIONS FOR IMPROVING THE SOCIO-ECONOMIC SITUATION

The level of income and the standard of living of the population in ATU Gagauzia are not different from the southern region of the Republic of Moldova, while in some relations ATU Gagauzia is even in a better place. A certain difference from some average national indicators is explained by higher incomes and a higher access to public services in Chisinau (particularly to water supply and sewerage networks). Meanwhile, the access to gas network in ATU Gagauzia is considerably higher than in neighboring districts and in the Republic of Moldova in general. Besides that, interviews have shown that a significant part of the population, despite the physical

⁶ Of course the number of workers does not depend only on the demand of labor force, but also on the flow of specialists.

access to gas networks does not use it because of the rising price for natural gas since 2006. The absolute majority of the population from the point of view of incomes, represent the medium level, while population tends to perceive a positively income trend. The income from salaries is the main source of existence for more than half of the Gagauzian residents, while the pension is for 1/5. Nevertheless, these incomes, as it appears, are not enough for keeping up a standard of living without emigration, offering the population the best economic opportunities. The general situation of the population in ATU Gagauzia is worse than in the Republic and in the southern region. This is caused by the significant losses of the economy. Despite the existence of a large system of professional education institutions, able annually to supply a large number of specialists, they are not adapted to the labor market needs. This is why it is not surprising that Gagauzia has a high deficit of qualified labor. From the point of view of strategic development, the socio-economic situation of Gagauzia is illustrated in the **Error! Reference source not found..**

SWOT Analysis 1 Socio-economic situation of ATU Gagauzia

Strengths	Weaknesses
<p>Availability in the region of a network of educational institutions;</p> <p>The existence of a large-scale health system;</p> <p>High level of gasification</p>	<p>Low incomes of the population;</p> <p>High dependence on emigration;</p> <p>Insignificant role of entrepreneurs generating the family's incomes;</p> <p>Lack of knowledge for initiating developing a business;</p> <p>Lower health level of the population</p> <p>Weak development of the water and sewerage system</p>
Opportunities	Threats
<p>The use of incomes coming from abroad for setting small production activity;</p> <p>Attracting the resources of international donors for evaluating the amount of buried pesticides and electro-technical waste materials;</p> <p>Opening in the Comrat State University the branches of national and international universities</p>	<p>Transforming the emigration permanent process;</p> <p>Increasing the difference in the level of incomes between the urban and rural area;</p> <p>Rising prices for gas;</p> <p>Worsening health of the population result of bad ecologic situation</p>

Taking into consideration the conclusions, the following recommendations for the regional authorities can be made:

- The Department of Statistics of the ATU Gagauzia should perform, in collaboration with the National Bureau of Statistics, a series of periodical (e.g. once in 3 years) researches of the household's incomes, representative at the level of the ATU Gagauzia. Such researches should be planned so that they can be compared with the results received by the National Bureau of Statistics during the monitor of the households' budgets. The need for this data derives from the Law on the regional development which determines ATU Gagauzia as a separate development region. The results of these researches would be useful for regional authorities and would help them to perform an effective monitoring of policies based on real data.
- From the statistical data that was collected by the moment of conducting this research, it was clear that the level and the structure of incomes in ATU Gagauzia does not differ from southern regions of the Republic of Moldova, while the situation is different compared to other regions of the country. For example the individual initiative plays a less significant role in ensuring the population's incomes. The ATU Gagauzia authorities are recommended to undertake measures to foster private initiative, which would diversify the revenue source of the population. The key measures would be more general, rather than bear a limited character: the development of the educational sector and the consulting in the technologies sector (on the basis of the College from the Svetlii village), agriculture protection and providing agricultural training (hail-suppression services and measures that aim to prevent soil erosion, modern systems of water supply canals for small irrigation, which are energy savvy and ecological).
- Emigration has an important role in population's incomes. This is a positive factor, taking into consideration that it has a positive impact on the economic growth of the region and poverty reduction. On the other hand, emigration, as a process, generates a «moral laziness», as the family members that depend on emigrants are not active in searching working places and developing the economic possibilities at the local level. Regional authorities should launch campaigns for stimulating economic activity. In this direction the target group should become the young people, whose creative and economic potential is not yet adapted. Particularly, the Comrat State University and other professional institutions of the region could make annual competitions of business plans written by the young people. Meanwhile, regional and local authorities should cooperate for implementing the winning business plans.
- According to the standard of living, ATU Gagauzia in many concerns is ahead of the southern zone. Particularly in the ATU Gagauzia, the access to the gas supply networks is higher than in neighboring districts and in the Republic of Moldova overall. The interviews performed have shown that a large part of the population does not use the gas, which starting 2006 became more expensive. This means that the existent and planned investments in the enlargement of the gas supply network are not justified. Still, there is a significant volume of investments necessary for increasing the access to drinking water and sewerage system in the rural area. The lack or the bad quality of the drinking water and the lack of a sewerage system has a negative impact on population's health.
- ATU Gagauzia has significant direct and indirect economic losses because population health issues (compared to national and southern levels). The ecologic situation is one of the main causes of poor health conditions, especially in the Vulcanesti district, where during the last two years the sickness rate was twice the level of the left part of the

autonomous units. Regional authorities should ensure the immediate removal or the conservation of the chemical wastes and old condensers, buried near the Cismichei village of the Vulcanesti district. The first two places in the structure of the death rate of the active population, account for diseases of the digestive and cardiovascular system. The main factors which contribute to these illnesses are alcohol abuse, hypertension, cholesterol and smoking. There should regional program adopted for promoting a healthy lifestyle, decrease of alcohol and tobacco consumption. There won't be immediate results of these measures. These are more likely to appear in the long term. Also, it is important to pay attention to the fact that the injuries and poisonings are reasons number four which account for the death work able population. The reduction of the death rate caused by the these factors requires available urgent medical aid, technically equipped human resources, good road network to the isolated villages. Currently, it takes twice as much time to reach the destination.

- Of course, the reparation of roads would have more positive results and not only for the urgent medical aid service. Particularly, the existence of good roads would offer the possibility to optimize the schools network in small villages, where the number of pupils is reduced and it appears more reasonable to transport them on a daily basis to the schools of the neighboring villages. Besides that, a good roads network would offer the possibility to develop services, ensuring the children and the patients with food, as an alternative for preparing the food in these institutions.
- The educational system of ATU Gagauzia is diversified, but it is not very effective in supplying labor force with the optimal qualification. More emphasis is given to university education (with a very theoretical approach), to the economic and agriculture sectors, while the demand on the market is for technical and pedagogic skills. Meanwhile, none of the educational institutions provides practical skills for creating and developing a business. Taking into consideration the deficit of financial resources at the regional level, the educational difficulties can be overcome by opening at the Comrat State University of Moldovan branches of foreign universities, where specialists will be trained to meet the regional demands. The key areas where it is forecasted to be soaring demand for specialists are – constructions, engineering and mechanics, petrol-chemistry, ecologic agriculture.
- A weak chain of the educational system in the region is due to poor knowledge of students of the state language (Romanian). If not to consider the political and cultural aspects of this issue, not speaking Romanian brings negative economic consequences. First of all, this is an obstacle for active participation of the Gagauzian population in the social life of the Republic of Moldova in general. Many perspective young people and valuable specialists of the autonomous unit, can bring their ideas to real simply because they do not speak state language (mainly this refers to the graduates of the University and the specialists from the public administration, consultants, universities' professors, other specialists for whom state language fluency is a mandatory condition). Secondly, the language barrier limits the number of countries, where people from Gagauzia can leave to (these are Russia, Turkey and Ukraine). But these countries are not very attractive for earning sufficient money for the Moldovan emigrants! Those who speak Romanian language can easier study one of the languages from the Latin group. And finally, not knowing the language is the main obstacle for concluding business with partners from Romania and for increasing the export from the autonomy to this country: despite the

geographical neighborhood, the export to Romania account for 5% of the exports from Gagauzia.

5. HUMAN RESOURCES

POPULATION

According to the official demographic statistics, as of January 1st 2007, the population⁷ in ATU Gagauzia was 155,7 thousands people⁸, i.e. 4,5% of the Republic of Moldova's population. Thus, the share became increased during the last 50 years⁹. Officially, 40,9% of the population lives in the urban area, while 59,1% lives in the rural area. The demographic statistics of the ATU Gagauzia have certain gaps that are characteristic to all the statistical systems of the Republic of Moldova. Still, even the existent statistical data proves that during the last ten years population of the ATU Gagauzia has decreased. This fall was sharper than in the rest of the country. In 1998-2007 the population of the Republic of Moldova decreased by 2,0%, in ATU Gagauzia it went down by 5,5%. The dynamics of the ATU Gagauzia population by gender is illustrated in Figure 7.

Figure 7 Population dynamics in ATU Gagauzia by gender as of January 1, 2007



Source: The statistics department of the ATU Gagauzia

⁷ Current population – number of residents that are on a certain territory at the moment of performing the statistical calculations, including those who temporary live there.

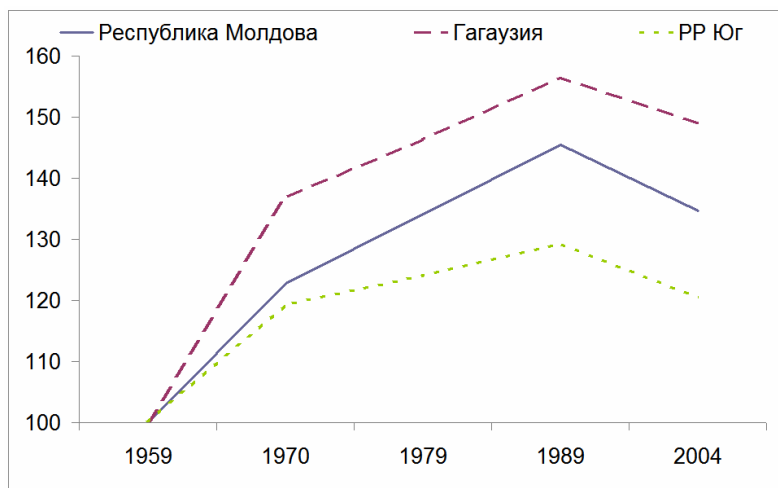
⁸ Data provided by the National Bureau of Statistics, which does not coincide exactly with the demographic information, provided by the ATU Gagauzia Department of Statistics. For certain years the difference is significantly large. For example, according to the local statistical information, on the 1st of January 2007 the population of the autonomous units consisted 159,8 thousands residents, while according to the data of the National Bureau of Statistics it was 155,7 thousands residents. The difference of more than 4000 persons is significant, as the average number of population of the Gagauzian villages is 3600 persons. This difference is explained by the fact that the NBS counts the migration flows, while at the level of ATU Gagauzia this factor is not considered.

⁹ The general census performed in 1959 showed that there were 104,4 thousands persons in ATU Gagauzia, i.e. 4,2% of the population of the MSSR on the right side of Nistru.

The current decrease in population is in contrast with the previous historical period, when the Gagauzian population was increasing faster than the population of the Republic of Moldova's. According to the population censuses conducted during 1959-1989, the number of people from villages part of ATU Gagauzia was increasing by 57,7% versus a 45,5% increase in the country and versus a 29,3% increase in the southern region (Figure 8).

It is important to outline that there was a general increase of population during 1998-2006 in ATU Gagauzia (+797 people). Thus, the registered decline of the population by more than 9 thousands people (from 164,8 thousands in 1998 to 155,6 thousands in 2006) is explained by the migration outside the region (overall 1000 people annually). The migration itself represents an index of the fact that in the Gagauzian region, as in the rest of the republic, the economic possibilities are very limited.

Figure 8 Population growth, 1959=100%



Sources: Expert-Grup calculations based on the data of the National Bureau of Statistics of the Republic of Moldova

Taking into consideration the results of the regional sociologic research, 54% of the residents of the autonomy are confident that family relationships in the ATU Gagauzia worsened compared 10 years ago. Besides that, the relative majority of the population (43,7%) consider that conditions determining the young families decisions to make a baby, today are worse than 10 years ago (according to the 21% of the respondents conditions are the same, while 27,4% consider that the conditions are better). If the trends mentioned above will remain unchanged, on the long term this will decrease the birth rate and available of human resources.

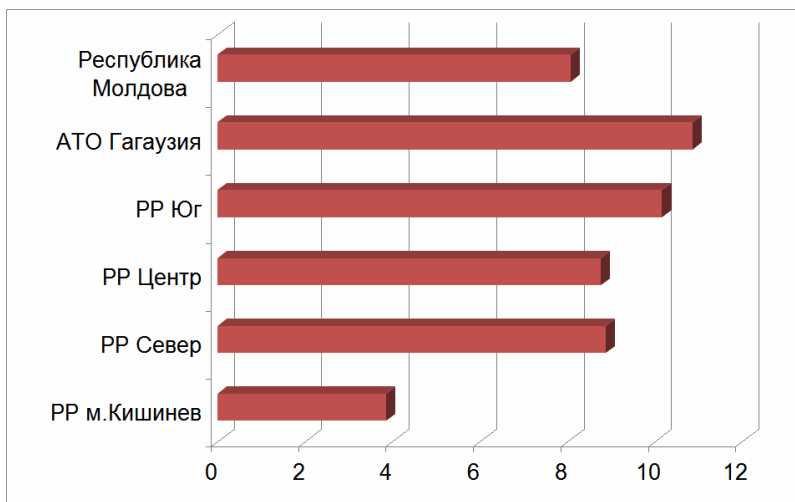
MIGRATION

The migration process influences the demographic profile and plays an important role in the economic and social life of ATU Gagauzia. Despite the absence of the statistical data that would offer the possibility to more exact conclusions, one may

remark that there are three main migration flows that differ according to their intensity:

- **Migration from villages to cities inside ATU Gagauzia.** This process happens in practice, while the main city where population is leaving to is Comrat. Majority are young people, who find jobs in the urban places. Besides, the intensity of this migration is very low and it will not increase in the near future. Only 3,7% of the ATU Gagauzia residents (less than the error margin of the research) declare their intention to leave their current leaving place for settling outside Gagauzia. The regional sociologic research offered the possibility to reveal a high level of labor force mobility inside ATU Gagauzia.
- **Migration from Gagauzia to Chisinau.** Mainly students who study in Chisinau universities and ultimately live there resort to this migration. The indicators which assess this migration could not be calculated. Still, the performed study shows that about 9% respondents are ready to settle in another region of the Republic of Moldova.
- **Emigration (migration abroad)** – accounts for the largest share of migrating Gagauzian population. According to the population census from October 2004, about 16900 residents of Gagauzia “temporary were absent”, which is approximately 11% of the population. As the census showed, the emigration from Gagauzia has highest figures across Republic of Moldova (Figure 10). The evaluation, performed in 2006 by CBS-AXA at the national level, revealed that the number of emigrants from ATU Gagauzia represents 20 thousands people.

Figure 9 Share of absent population in the general pool of population, according to the 2004 census



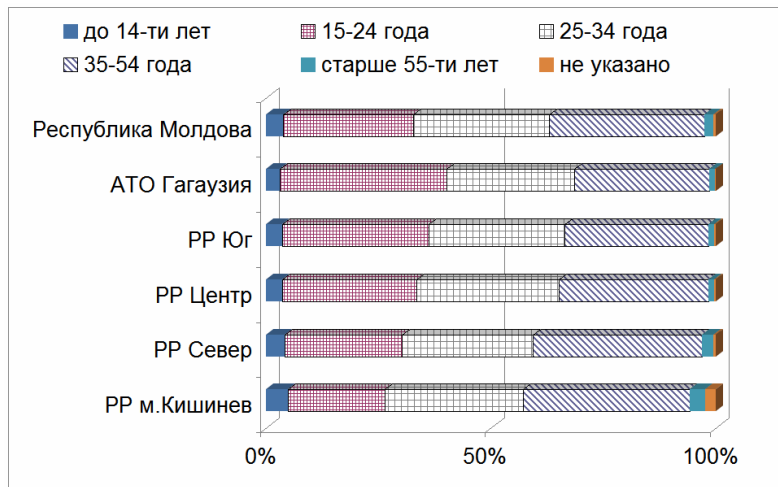
Source: Expert Grup calculations based on the data provided by the National Bureau of statistics of the Republic of Moldova

The 2004 census data revealed that in the gender structure of the absent population from the Gagauzia, women have a higher aggregate weight compared to southern

region and entire country (48,3% to 43%). This is an argument to the fact that Gagauzian women are responsible for the welfare of their families. A higher level of women migration is determined by the fact that the number of work places available for women in agriculture, has decreased faster than in the rest of the country.

Besides, the share of young emigrants in the general structure of emigrants from Gagauzia is much higher than in any other region and than in the rest of the country (Figure 10). Young people with their age between 15-24 years represent more than 37% of the number of emigrants from the autonomous unit. On average, in the country this share is 29%, while in the southern zone – 33%.

Figure 10 Structure of absent population according to basic age groups, % from total number



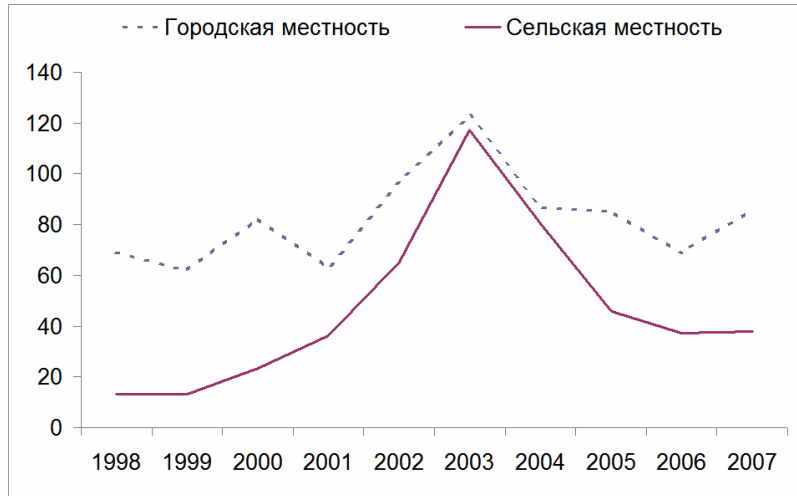
Sources: The data of the 2004 census and the calculations of the Expert-Grup

There are many reasons which lead to emigration. Once it started, it is difficult to stop it. Studies have shown that the main reason for leaving Gagauzian population is the search for better economic possibilities. Low income in Gagauzia is the driving factor; while high salaries paid on the Russian construction sights (the main work sector for the ATU Gagauzia men) is the leading factor. It is difficult to believe that in the near future migration will stop. While performing the regional sociologic survey (March 2008) half of the Gagauzian citizens (49%) considered that, it is harder now to find a better paid job than it was in 2007. Thus, it is one of the main factors that determine emigration – low level of incomes. Surprising that 49% of citizens have responded affirmatively on the question: "If you would have the opportunity to leave in the next 3 months abroad for work, would you do so?". Besides, 43% of interviewed residents are going to settle down abroad.

Emigration has positive and negative social and economic consequences, while it is impossible to set their precise contribution. Emigration is the main reason for sudden reduction of the population in the region unit last years. Also in terms of population size, emigration also has demographic implications, which will come up in the long term (such as divorces). It has been revealed that highest emigration was registered

2003-2004 and coincided with a sudden explosion of divorce in ATU Gagauzia cities and villages (Figure 11). This figure has increased from 35 divorces to 100 marriages in 1998 to 119 divorces to 100 marriages in 2003. It is important to remark that in the rural area this ration increased 10 times. However, during the last five years the divorce ration has decreased to 50 cases in 2006, but it went up to 60 cases in 2007. This is why it is difficult to assess whether divorce dynamics is currently at halt. It is certain that emigration is not the single reason behind divorces, but has a certain direct impact¹⁰.

Figure 11 Divorce structure in ATU Gagauzia (number of divorces to 100 marriages)



Source: ATU Gagauzia department of statistics

It is important to mention that a significant number of children in ATU Gagauzia live in broken families – without one or both parents, who are gone abroad for work purposes. According to the administrative data, in February 2005, 1500 children in ATU Gagauzia lived in families, where both parents were absent, while 3980 children were educated in families where one parent was absent. According to our evaluations, currently the actual number of children can be several times higher.

As it was written in Chapter 2, emigration influences significantly the Gagauzian economy – as it fuels consumer needs of the population. Similar to the situation across the Dnester, emigration lowers the pressure on the regional labor force market. In 1998-2007 the number of the working places in ATU Gagauzia has decreased by 11 thousands. It is not difficult to imagine the social and politic instability that could have taken place caused by unemployment if not emigration.

It served as a gateway for the exceeding labor force, which ultimately resulted in its deficit. This is one of the main issues which determine the long term economic growth of the region. Every tenth enterprise in ATU Gagauzia faces labor deficit. A special

¹⁰ There are some submissions that a part of the divorces were formal and were determined by the emigrants' necessity, who went illegally abroad and were deported to the Republic of Moldova to change their families. BY changing their families and making new passports, these emigrants could leave abroad again.

worry is raised by the leaving high skilled employees from those sectors of economy, which rely directly on qualified labor – education and health care. In 1998-2007 1000 skilled workers left from these sectors and majority emigrated.

HUMAN RESOURCES

There were no surveys conducted in ATU Gagauzia which could be representative at the regional level, while the department of statistics publishes only data on employment at enterprises where 20 or more people work. This makes it difficult to determine the employment structure. The population structure of ATU Gagauzia, based on participation in economic activities, is compiled using the local and national sources and by making logic assumptions(Figure 12).

Thus, from 155,7 thousands people, who live in ATU Gagauzia, 28,2 thousands (18,4%) are younger than the work age (15 years old). The active population represents 34,7% of the number of people who are over 15 years old (against national 36,7%). From 44,1 thousands of active residents of ATU Gagauzia, 89,6% are employed in the region, while 10,4% are unemployed. This means that the situation in the regional economy is worse than in the country: at the national level the rate of unemployment in 2007 was 5,1%. According to the data received from the National Employment Agency, 1/3 of the unemployed persons are young men aged between 16-24 years old with a low level of qualification, with no professional experience.

According to evaluations made by Expert-Grup, non-active population in ATU Gagauzia comprises 18,2% studying students (aged over 15 years old), 37,9% - pensioners, 24,1% - emigrants and the remaining 16,4% (i.e. 13,6 thousands) – discouraged population, not searching anymore for work but involved in the household activities.

It becomes obvious that in the structure of the ATU Gagauzia population, the share of workers is much higher than the national and regional averages (88,7% vs. 66,7% and 63,7 respectively). This share is the reason that farm resources in Gagauzia are mainly owned by big companies. As the statistic shows, about 80% of people in Gagauzia involved in agriculture people are hired workers. In the Southern region this figure is 30%.

Figure 12 Population structure by economic activity, %, 2007

Total population of the Republic of Moldova (RM): 100%	
ATU Gagauzia (ATUG): 100% (155,6 thousands people)	
Population of 15 years old and older	Population younger than 15 years old
RM: 81,9%	RM: 18,1%
ATUG: 81,6% (127 thousand)	ATUG: 18,4% (28,6 thousands)

Active population				Passive population			
PM: 36,7%				RM: 63,3%			
ATOF: 34,7% (44,1 thousand)				ATUG: 65,3% (thousand)			
Employed population			Unemployed				
RM: 94,9%			RM: 5,1%				
ATUG: 89,6% (39,5 thousand)			ATUG: (4,6 thousand)				
Workers	Other categories						
RM: 66,7%	RM: 33,3%						
ATUG: (35 thousand)	ATUG: (4,5 thousand)						
Agriculture	Industry	Services	Students	People abroad	Employed	Other (discouraged, involved in household works etc)	
RM: 32,2%	RM: 12,2%	RM: 54,6%	RM: 18,2%	RM: 3,3%	RM: 20,0%	RM: 23,2%	
ATUG: 25,0% (10,7 thousand)	ATUG: 15,0% (6,1 thousand)	ATUG: 58,0% (23,0 thousand)	ATUG: 18,2% (15,0 thousand)	ATUG: 3,3% (3,0 thousand)	ATUG: 24,0% (13,6 thousand)	ATUG: (13,6 thousand)	

Sources: Expert group calculations based on the data from the National Bureau of Statistics and the ATU Gagauzia Department of statistics

The dynamics of the statistical data on labor force employment reveals that there have been important changes in the economy of the Gagauzia (Table 12). During the last ten years, the number of people employed in the regional economy decreased by 20% (10,7 thousand people), while the majority found work abroad. Meanwhile, a significant number of young people aged between 15 and 24 years old do not try to find a job in the regional labor force market, as they go abroad immediately after graduating.

The second change is the absolute and relative decrease of agriculture work places in the employment structure. This is the sector with the highest decreasing rate of employment – down by 65%. In other sectors, employment rate increased by 46%.

Finally, there is a diversification of jobs in the regional economy. In 1998, 1% of active population was employed in "other sectors", while in 2007 this category accounts for 19% of the employed population.

Table 12 Distribution of the employed population by sectors of activity in ATU Gagauzia

Total	Thousc people										
	% from total n										
Agricultu	Thousc people										
	% from total n										
Industry	Thousc people										
	% from total n										
Construct	Thousc people										
	% from total n										
Trade, and rest	Thousc people										
	% from total n										
Transpor commu ns	Thousc people										
	% from total n										
Financia intermed	Thousc people										
	% from total n										
State administ	Thousc people										
	% from total n										

	% from total n										
Educational	Thousand people										
	% from total n										
Health and services	Thousand people										
	% from total n										
Other services	Thousand people										
	% from total n										

Sources: ATU Gagauzia Department of statistics and Expert-Grup calculations

The reasons for changes during the last ten years are the following: in 2007, 25,9% of people were employed in agriculture (35,8% national average); industry was supplying 15,7% of jobs (12,7% national average), while service– 58,3% (54,6% national average). In fact, there were 59,6% of active population working in agriculture in 1998. Taking into consideration that today in Gagauzia there are twice as much work places in the service industry than in agriculture, the region can hardly be considered agricultural anymore¹¹. It has been stated in other chapter, that agricultural contribution in the gross domestic product of the region has also decreased. But, even if the share of agriculture decreased, the general development level of the region (the standards of living, the infrastructure) has not changed significantly compared to what has been 10 years ago, when agriculture played a key economic role.

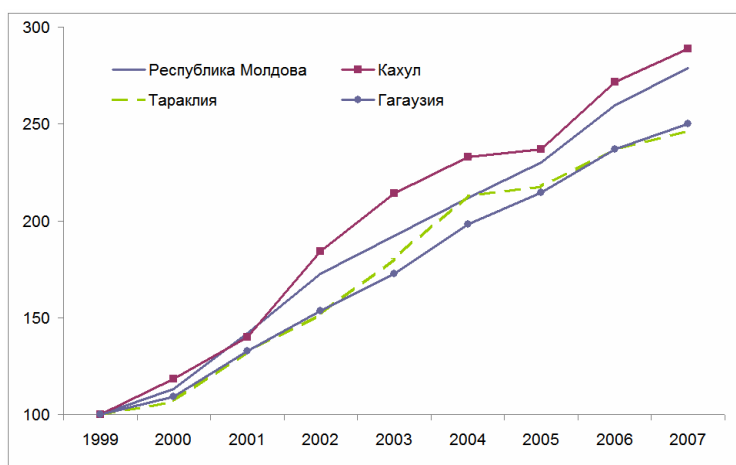
LABOR PRODUCTIVITY AND REMUNERATION

In 1999-2007 the real average salary in the country increased 2,79 times, while in ATU Gagauzia 2,5 times. It is important to emphasize that in Cahul, during the same period the real salary increased 2,89 times, while in Taraclia –2,46 times (Figure 13)¹².

Figure 13 Change of real salary, 1999=100%

¹¹ In a broader research, the PhD of the Harvard University – Alexander Culiuc demonstrates the wrong statement "In Moldova there is an agriculture economy". See this research on <http://www.culiuc.com/archives/2008/02/agriculture1.phtml>. The subject discussed by Alexander Culiuc was the base for our research on the ATU Gagauzia labor force market.

¹² As a result of the administrative-territorial reforms it becomes impossible to perform an exhaustive comparison between ATU Gagauzia and the southern zone in 1999-2007.



Sources: Expert-Grup calculations based on the data of the ATU Gagauzia Department of statistics.

Table 13 Average salary in ATU Gagauzia, % of the average figure by respective sector of the national economy

Total										
Agriculture										
Industry										
Construction										
Trade										
Transport communicati										
Financial serv										
Real operations, and ent services										
State adminis										
Education										
Health care social service										
Other public, and pe										

services										
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Sources: Expert-Grup calculations based on the data of the National Bureau of Statistics and the ATU Gagauzia department of statistics

The difference between remuneration level in ATU Gagauzia and national average level has increased: in 1999 the salary in ATU was 78,8% of the national average, while in 2007 – 69,5%. By the end of 2007, the overall sector salary in ATU was less than the national average (Table 13). The salaries paid in industries were approximately the same. In other sectors the salary difference was constantly increasing.

The low remuneration in Gagauzia is particularly, but not fully, a factor of low labor productivity, which is lower in the region than in the rest of the country. For example, industrial productivity of ATU Gagauzia in 1998-2007 was 26% less than the national one. But, even if to take into consideration the structural differences, during this period the industrial salary was 35% smaller than country average.

Figure 14 Labor efficiency and remuneration change in ATU Gagauzia industry, 1999=100%



Sources: Expert-Grup evaluations based on the data from the ATU Gagauzia Department of statistics and the National Bureau of Statistics

A higher increase of labor productivity, compared to the real change in salary in Gagauzia (Figure 14) outlines the existent possibilities for increasing remuneration (or making payments using "clean cash", i.e. officially). However this will become possible only if this labor productivity progress will stay unchanged and show a growing dynamics. Enterprises of the region have to realize that if remuneration is not improved, they can face a severe lack of labor force and a higher employee turnover.

CONCLUSIONS AND RECCOMENDATIONS FOR EFFICIENT HUMAN RESOURCE EMPLOYMENT

Population has decreased during the last ten years by 5,5%. This was mainly determined by labor emigration. However, there can be traced a long term reproductive behavior of the population, as the current social and economic environment does not favor young families to make children. Emigration plays a significant role in the dynamics of human resources. Even if there are certain migration flows inside and outside of Gagauzia to Chisinau, labor force migration abroad plays the key role. According to valid evaluations, 20 thousands Gagauzian emigrants work permanently abroad. Statements made in press about "40-50 thousands Gagauzian emigrants" are not correct. One of the main social problems, (that has serious economic consequences) related to emigration, is the high number of children educated in separate families, where one or maybe both parents have emigrated. Thus, emigration is the reason for high rate of divorces in ATU Gagauzia. However, this phenomenon helped solving unemployment for a relatively long period of time. Still, unemployment remains high in some regions of Gagauzia, because of the large number of low qualified persons. The remaining labor qualification level in ATU Gagauzia and the "parasite flow", generated by emigration, determine the low labor productivity and as a consequence low remuneration. Meanwhile, in separate sectors, the salary should be immediately increased or companies will face a sudden labor deficit. In order to set some solutions for the human resources issue, below are listed the strong and weak points, opportunities and the main threats for the ATU Gagauzia.

SWOT Analysis 1 Human resources

Strengths	Weaknesses
<p>Dominating positive natural growth;</p> <p>Decreasing role of agricultural employment;</p> <p>Diversification of employment and employment opportunities;</p> <p>Labor force mobility.</p>	<p>Increasing death rate;</p> <p>Diminishing labor force pool and potential as a result of emigration;</p> <p>Higher unemployment rate than national average;</p> <p>Low labor productivity.</p>
Opportunities	Threats
<p>Returning home emigrants with who are trying to set their own business;</p> <p>Skilled emigrants in constructions;</p> <p>High intellectual potential of education institutions of the region.</p>	<p>Higher emigration;</p> <p>High level of divorce rate;</p> <p>Increasing number of "social orphans" (with parents who emigrated);</p> <p>Higher than national average emigration of women and young people.</p>

There are no miraculous solutions for the human resources deficit in the ATU Gagauzia. The main long term recommendations for improving the situation are listed below.

- Regional authorities do not have sufficient financial resources for stimulating birth rate through subsidies for young families. Even abundant resources of this kind, will improve the situation only in the short term. ATU Gagauzia, as the rest of the country, is undergoing through demographic transition that is characterized by decreasing fertility. Gagauz authorities should focus on realistic policies, which suppose the improvement of the natural population growth by curbing the death rate. In order to reach this target living standard should be systematically improved, by increasing the level of incomes and improving ecologic environment. On a long term perspective these measures will influence the population well-being.
- Emigration in Gagauzia is intense and may be the highest in the entire country. We consider that migration in Gagauzia will continue for at least the coming ten years. The economic and demographic structure of population in the region is preconditions for emigration to continue in the long term. It is easier for new migrants to leave now the country, having already a significant share of population which settled down abroad. Authorities in Gagauzia do not have administrative instruments to curb this process. However they should not attempt to change this process by applying direct measures. Meanwhile, the regional policy should be adapted for diminishing the negative impact and enhance the benefits from migration. One of the policy directions should be aiming at decreasing women migration, as it bears the most negative social consequences. Another direction would be preventing young people from emigrating and rather convert their skills and energy into beneficial activities for Gagauzia. The "obstacles" aimed at preventing women and young people migrating away, should be offset with alternative economic opportunities in the region.
- Regional administration should seek long term solutions for protecting children left without the parent, because of emigration. It is considered that parents decide to leave their child only under heavy economic burden but would rather prefer another alternative to this situation. An optimal solution could be establishing community agencies for taking care of children who are left without parent(s). Parents who wish to leave abroad may sign a contract, and assume the responsibility to cover the fees.
- According to our evaluations, unemployment in ATU Gagauzia is twice higher than in the rest of the country. Meanwhile, in other regions of the autonomy there is a deficit of low skilled labor force. For balancing the situation, measures should be taken towards regional labor mobility. This would require improving the roads, allocating subsidies for transportation and providing accommodation throughout the working week (e.g. in the empty students dormitories).
- In Gagauzia, remuneration level in all the sectors is lower than the national average. The reason is low labor productivity. Reducing this difference implies efforts to be made by regional administrations and professional education institutions, for providing better quality education. Professional education should not match only with students' wants but also with demand of regional

economy. In order to adjust education to market demand, each institution should establish a Mentor Committee, with regional administration and business community members participating in these committees. There is a lack of technical specialists in the region. This gap can be covered only if there will be branches of foreign and Moldovan universities set up within the Comrat State University. Besides, the Comrat State University should adjust its teaching profile and adopt more practical teachings which can be instantly applied in practice. Companies do not need "economists and managers with a general background of knowledge": they need specialists as sales managers, engineer-economists and cost-engineers, financial officers, human resources managers, brand managers, marketing managers or operations manager.

- It is necessary to increase remuneration in sectors where labor productivity is higher than salary growth rate (industry, financial services). A steady growing salary will become possible if companies will not have to incur unofficial payments (related to corruption and bureaucracy) and indirect production expenses (because of bad road infrastructure, poor communication networks).
- Salary has to increase in public sector as well – in order to retain perspective young people in this sector. This can be achieved by decreasing the number of public workers. Their number can be reduced by a quarter without damaging public administration efficiency. The salary of the public workers should depend on personal accomplishments, which can be evaluated on the basis of objective factors.

6. NATURAL RESOURCES OF THE ATU GAGAUZIA

Natural resources are important for countries similar in economic structure to Republic of Moldova. ATU Gagauzia has limited natural resources. There is a high human impact in the region as in the rest of the country, on the environment and natural resources as well, because:

- Of the relatively high population density;
- High level of land use (more than 2/3 of the general surface);
- Past population inhabitation of the territory;
- Human negative impact on natural resources.

MINERAL RESOURCES

ATU Gagauzia has limited reserves of mineral resources. The main types of mineral resources are the mountain rocks used in construction industry. During 1950-1980, there were 14 minefields explored on the present day ATUG territory including 4 in Comrat district (sand and clay), 4 in Ciadir-Lunga district (sand and clay) and 6 in Vulcanesti district (3 for the extraction of clay and 3 of coal). In 2007 the geological surveillance service mapped 6 minefields of useful mineral resources (Table 14).

Table 14 Information about mine states registered in ATU Gagauzia, as of 01.01.2007

Location	Useful mineral resource	General surface of minefield, ha	Including territory, ha			Reclaiming developed ha	
			Undeveloped	In process development	Developed	Planned	Executed
Ciadir-Lunga	Clay	5,6	-	-	5,6	5,6	-
Cazaci	Clay, limestone	5	-	-	5	-	-
Comrat («CAC»)	Clay	8	3	2	3	1,5	0,5
Comrat («Mărfă-Consum»)	Clay	4	1	1	2	1	1
Comrat «Cicea»	Clay	4	4	-	4	-	-
Comrat	Sand	0,5	0,5	0,5	0,5	-	-

(«ГПЛХ							
Total #	x	27	8,5	3,5	20,1	7,	1,5

Sources: ATU Gagauzia's Department of statistics

Industrial resources for construction materials include clay, timber, sand and limestone. They are used as a raw material in the construction industry, building transportation infrastructure, etc. Currently, there are 6 companies which possess license for extracting these resources: 2 in Cahul, 4 – in ATUG. There are more than 60 small minefields of clay, sand and building stone in ATUG. In this case population extracts these materials on its own (for home use) and there are small companies in these towns which produce minor amounts of concrete, bricks etc.

The clay resources are abundant: there are 30 clay mines known. Their general surface equals to 29,8 ha. Clay differs by variety and can be used for different purposes: production of bricks, tiles, ceramics, binding materials etc.

There is plenty of clay for producing bricks and tiles. The reserves are close to the surface, while the extraction of clay is done in mines. Clay quality is different. But especially important are clay loams, which can be used in their natural form, without any conversions. Usually, clay is fusible and has a low concentration of aluminum oxide. The largest minefields are located in Ciadir-Lunga, Comrat and Vulcanesti.

The minefield in Ciadir-Lunga is located in the north-eastern part of the city, on the right slope of Lunguta River. Clay thickness 4-8 meters on average and it is located near the surface. The raw material can be used for producing bricks and tiles, but it requires some conversion. The A and B categories reserves are estimated at 1055 thousands m³ of loamy clay and 724 thousands m³ of clay. The raw material was earlier used by the currently idling factory for producing bricks and tiles in Ciadir-Lunga.

To produce clayite, highly plastic clay is used. The extraction is done in Comrat minefield, located 0,5 km to the north of the city, on the right slope of Ialpuș River. Clay reserves there are 1-30 m thick. The reserves of the B and C1 categories are estimated at 1020 thousands m³ and 3247 thousands m³ of clay. Currently, the minefield is not developed.

Sand and gravel resources are available in 30 minefields, which are mostly not very big. Sand can be used in construction, concrete manufacturing, making bricks and "fortan", road covering etc., while gravel can be used for producing concrete, road construction and other purposes. Sand is suitable for producing silicates, as it contains clay and consequently can be used for producing silicate bricks, concrete blocks, insulation veneers, etc. A field of this type is in Comrat (reserves are estimated at 663,8 thousands m³ category A and 2705 m³ thousands category C1) and in Ciadir-Lunga (12858 thousands m³ category C1). There is no extraction in these minefields.

There were identified insignificant reserves of brown coal in the region, mainly in Vulcanesti, Etulia-Valdiceni and Reni (a part of the last two are located in Ukraine). Overall, the quality of coal low and it is not "mature enough", for heating. While it burns there is a high emission of ashes, water and sylph, which makes industrial

extraction of coal not profitable. For the moment, none of the minefields is developed. There is a potential for conducting exploration for oil and natural gas. Particularly, there will be studied the old geologic reserves in Predobruja depression.

As a conclusion, it should be emphasized that population extracts some kind of mineral resource in every community for personal purpose, without any corresponding license. There are also cases of illegal extractions conducted for commercial purposes. For example, from the general number of the known mines (over 60), more than 50 mines were not registered and did not have an authorization for extraction. Only the town hall of Cazacilia has concluded a contract with a household subject for extracting sand and issued a license for clay extraction to a legal entity; in the town hall of Copciac, a household subject has a license for extracting stone.

SOLAR POWER AND CLIMATE RESOURCES

The climate of ATU Gagauzia is a moderate continental. It is characterized by relatively mild and short winters and long and hot summers. The following information indicates the high potential of solar energy: average gross amount of solar energy is 114-116 Kcal/ cm² per year and 2150 hours of sun shine during the year. The radiation balance during the year is 54 Kcal/cm. These figures are highest across the Republic of Moldova; they determine favorable conditions for using solar energy and agro-climatic resources. The average air temperature is 10,0°C.

The average amount of precipitation during the year ranges between 450-550 mm, characterized by time fluctuation and area coverage. Shower rains, storms and hail are frequent during the warm period of the year. Gagauzia is subject to dangerous climate conditions. The most frequent are heavy rains, dry and hot winds¹³, droughts, which happen in the region three times per year and the late spring and early autumn frosts, ice-slicks and snowstorms.

Taking into consideration the climate conditions, ATUG is part of the third agro-climatic region located in the south. The sum of the average daily temperatures during the active vegetation period of plants exceeds 3300°C, while amount of rain fall is 320-360 mm. The last frosts usually take place in during April 15th-20th. In autumn the first frosts are usually registered on October 20th-25th, while soil starts freezing during September 20th and the 5th-10th of October. The period without frosts lasts on average 190 days. The agro-climatic resources are favorable for cultivating: grains (wheat, barley, oat, buckwheat, millet, and sorghum), beans (pea, haricot, lentil, etc.), technical plants (sunflower, tobacco, soy, essential oil plant, etc.), grapes, vegetables and fruits (including peaches, apricots and other heat loving cultures).

Wind energy – a resource with a poorly explored energy potential in ATU Gagauzia. There are frequent northern winds in the region (25-35% chance), followed by southern winds. The reason for this is that the rivers' valleys lay from north to the south. The average speed of the wind is 2,5-4,5 m/s, while strong winds (15 m/s and more) are more frequent in spring. The kinetic power of the wind (calculated at the height of

¹³ In ATU Gagauzia the number of days with dry winds ranges between 5 to 11, which is one of the highest levels in the Republic of Moldova.

26 meters) ranges from 20 Watts/m² in communities of the eastern part of the region, to 60-70 Watts /m² in the western part (close to the Prut river valley).

WATER RESOURCES

Water resources include rivers and lakes and underground waters. Almost all rivers of the region are part of the Danube basin. The largest rivers are: Ialpuș (142 km long, with a 3180 km² total area); Lunga, Lunguta, Ialpușel, Salcia Mica and Cahul. The natural water runoff layer is 15-20 mm, which is 2-3 times less than in the northern part of the country. There were reservoirs and smaller ponds built to regulate the flow, for irrigation purposes, fish breeding, industrial and recreational purposes.

There is a lack of drinking water in the region, caused by low rain falls and a high degree of mineralization of underground waters. Thus, in the plain of the Ialpuș river (which is mainly flowing on ATUG territory) the mineralization of underground waters reaches peak levels– 5800-6000 mg/l, which makes this water impossible to drink. Population uses mostly underground waters from wells, majority of which do not meet the sanitary conditions for drinking water. For example, according to the data for 2003, 83-92% of the water samples taken from wells in ATUG, did not correspond to the existing requirements. There are several underground mineral water resources for drinking and healing purposes: Comrat, Ciadir-Lunga, Congaz (carbonate-chloride sodium water), Besalma (carbonate-sulfate water) and Vulcanesti.

BIOLOGICAL RESOURCES

According to their potential, these insignificant resources are found in several types of ecosystems. The most common ecosystems are prairies, used as pastures. The area of forests is 17061,42 ha, and 3360,52 ha are forest-protection lines. The forestation rate is 9,2% (lower than country average), while there are 0,1 ha of forests lands per 1 person, which indicates a very low rate of population endowment with forests resources. From the total forest area, 13974,84 ha (82%) are forest plantations, 11725,87 ha is public property and 2248,97 ha – ATUG public property. There is a relatively bigger forest terrain near Comrat – 1892,49 ha, including 1700 ha of forest resources; Vulcanesti – 1078,35 ha, including 802,93 ha of forest resources. In Dezghindja village 937,31 ha are forest terrains, including 773 ha of forest resources. Forest plantations bear an important ecological (prevent soil erosion) and recreational functions and few economic benefits (forest is cut down only for sanitary purpose and for collecting certain forest products). The use of biologic resources is limited. While unreasonable deforestation, hunting and fishing are conducted, several species of animals and plants are close to disappear.

NATURAL RESOURCE PROTECTION

The main issue related to natural resources is determined by the irrational use, inadequate law enforcement, random implementation of law provisions and sanctions; lack of coordination between regional and local administration. This turns into illegal use of natural resources, especially the extraction of mineral resources, exploitation of the plant, animal and water resources. There is a decreasing amount of drinking water, and the population is the first to be affected. The inadequate use of

resources leads to land and other resource degradation. Heavy deforestation, excessive pasture, hunting and fishing are impacting the plant and animal resources. A negative impact on the environment is the transforming of certain parts of communities into unauthorized dumps.

CONCLUSIONS AND RECOMMENDATIONS REGARDING FOR RATIONAL USE OF NATURAL RESOURCES

ATU Gagauzia has a large variety of natural resources, but a significant part of them is limited. Taking this into consideration, existing resources should be rationally allocated. Below is listed the SWOT analysis of ATU Gagauzia natural resources.

SWOT Analysis 2 Natural Resources

Strengths	Weaknesses
Sufficient reserves for producing; Very favorable climate conditions for agriculture	Lack of the local energy resources; Lack of the qualitative water for irrigation and for house and industry needs
Opportunities	Threats
High potential for using solar and wind energy; Growing construction industry, increasing demand for raw materials	Disappearing rare species of plants and animals; Illegal use of resources; Irresponsible approach of the population to natural resources.

- The following measures are recommended for the rational use and protection of natural resources in and by the households:
- It is necessary to change the system of how natural resources are used– at the national, regional and local level – in order to define the issues local administration is responsible for, and have them monitor the proper care for natural resources.
- In order to secure population and economic agents with drinking water, there should be a rational approach applied to how water is used by the population; limit industrial water consumption of water by improving production processes (using administrative, economic and educational levers); develop new water sources for supplying to communities.
- In order to use mineral resources rationally and protect the environment, from mining activity, it is necessary that local administration plays a more active role in monitoring the mineral resources, apply sanctions for illegal extraction, and explore land which suffered from mining.

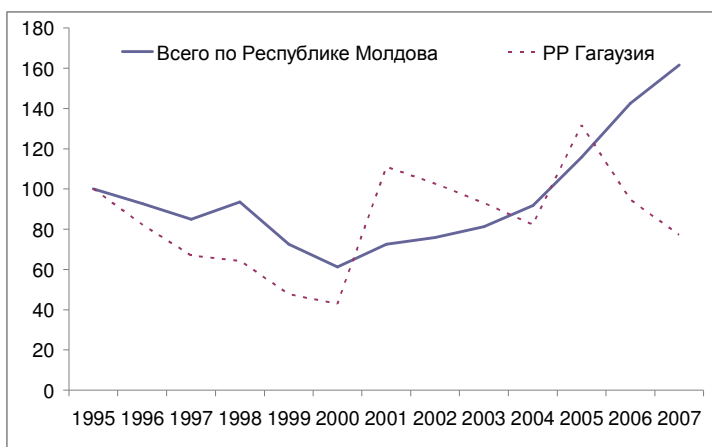
- Curb the aggravating biologic resources by fighting with illegal deforestation, planting new forest areas with fast growing and adapted to local conditions species (acacia and others), creating natural zones for stabilizing the ecologic environment. Additionally to these benefits, these measures will have positive economic impact, due to the increased soil protection.
- Stubble burning, frequently used in agriculture, has to be prohibited, as it has a negative influence on the plants, animals, soil and climate.
- No mineral exploration should be allowed on state protected natural territories, protected, in the plains of the rivers plain and reservoir, etc., where extraction of mineral resources would destroy the natural balance.
- Penalty should be higher for illegal use of natural resources: cutting trees and bushes, collection of curative and rare plants, illegal hunt and fishing, harming the plants and animals introduced in the Red Book, excessive extraction of useful mineral resources, and illegal use of lakes and rivers water.
- An educational campaign has to be carried out concerning the rational use and protection of the natural resources. This is a mandatory measure for developing the rural and ecologic tourism, which regional authorities count on, as a measure to diversify regional economy.
- Taking into consideration the lack of water reserves in the region and the negative historical experience, (starting with the soviet period) regional irrigation projects are not efficient. The region does not have required volume of water for keeping the irrigation system running, while long term negative consequences (mainly due to the salting of the soil) can exceed the immediate economic profit.

7. CAPITAL RESOURCES

DYNAMICS AND CURRENT STATE OF CAPITAL RESOURCES

Capital is ultimate production factor for economic growth. In Gagauzia capital investments are scarce, and in 2003-2007 their volumes have increased slower than in other regions (see Figure 1 from chapter 1). Data show that even historically, the investments in ATU Gagauzia were below the level. investments in this region also are characterized by instability. As of 2007 investments in Republic of Moldova the are 62% greater than in 1995, while in Gagauzia investments are 30% less than in 1995 (Figure 15).

Figure 15 Index of investment in fixed capital, 1995=100%



Sources: Expert-Grup evaluations based on the data from the National Bureau of Statistics

The lack of investment, during the last ten years, collapsed production capacities of Gagauzia enterprises, which diminished the production competitiveness. The low investments in the regional economy is explained by the fact that companies have to use own resources to finance investments (59% of the total amount in 2007). In separate years, the capital investments were coming from foreign investors (87% in 1999, 40% in 2003-2004). However these investments were the most unstable during the entire period.

LEVEL OF DEVELOPMENT OF THE FINANCIAL SYSTEM

A well developed financial system can meet investments requirements of the company. Meanwhile, the financial sector of ATU Gagauzia, as in the entire country, is underdeveloped. There are branches and representatives of main commercial banks opened in the region, but their role is insignificant in financing companies. According to the data for 2007, the banks financed only 8,6% (22 million MDL in absolute volume) of the total amount of investments in ATU Gagauzia.

The financial sector of Gagauzia comprises mainly banks (branches and representatives). There are no leasing companies and there is only one insurance company. Micro-financing is almost absent.

It was impossible to make a quantitative analysis of the banking sector in ATU Gagauzia, because banks were reluctant to answer any questions. It is clear that the variety of services, provided by the commercial banks, is limited and the investments are insignificant. From the total number bank credits, issued in 2007 (which according to the Expert-Grup calculations, equals 350 millions MDL), investment credits were 6%. Taking into consideration the specifics of the economic resources in region and the policy of central offices, banks in Gagauzia are looking for short term profits, which is less risky. This is the reason for issuing mainly short term credits (less than 12 months). Commercial banks prefer to issue credits for agriculture and food industry, with a growing role of industrial sector.

Commercial banks from ATU Gagauzia accept various forms of mortgages for paying credits (real estate, vehicles, income flow, and working capital). The key reasons for refusing issuing credits to companies is their insufficient collateral, no credit history and professional experience (lack of financial history), low quality business plans. Taking into consideration these factors, some banks reject 50% of credit applications. Separate bank provide assistance for elaborating business plans, legal consulting services. However these should be consulting companies to offer professional level support.

RECOMMENDATIONS FOR THE DEVELOPMENT OF THE CAPITAL RESOURCES

The development of capital resources is related to the development of the financial sector of ATU Gagauzia. The capital market today in Gagauzia is underdeveloped, and cannot meet the requirements for capital investments (**Error! Reference source not found.**).

SWOT Analysis 3 Financial sector

Strengths	Weaknesses
Majority national banks have branches in ATU Gagauzia; Banks are competing for clients	The financial sector comprises only banks; The micro-financing sector is underdeveloped; No branches of leasing companies; There is a single insurance company
Opportunities	Threats
Growing competition among local banks due to increasing presence of international banks	Managers do not have sufficient knowledge to elaborate attractive projects

banks; Growing interest of the European (European Bank for Reconstruction and Development) in crediting local banks; Fast national development of the services	business plans for banks.
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Taking into consideration the results of the SWOT analysis, the main recommendations for the development of the capital market would be the following:

- Stimulate the development of the financial and investment leasing. Leasing companies shall examine the opportunity of opening branches in ATU Gagauzia, while looking at financial service development rate in Chisinau, Balti and other regions.
- The regional authorities of Gagauzia declared their intention to open a "Gagauzian bank" for financing capital investments. It is necessary to emphasize that the future bank has to meet the capitalization requirements set by the National Bank of Moldova. Taking into consideration growing competition between banks, their number can decrease due to consolidation steps. The "newly-opened" banks have less capacity to compete with existent banks. A more realistic approach would be diversifying banking services.
- The regional administration should stimulate consulting services, by suggesting a Consulting Center to be opened within the Comrat State University. In this center companies will have the opportunity to receive advices and help while elaborating business plans. This will increase the chances for receiving a credit. Having a strong business plan, will facilitate finding business partners, attract capital investment.
- The regional administration should encourage micro-financing institutions to open their branches in Gagauzia. These are good opportunities for financing "small investments", i.e. for starting businesses.

8. REGIONAL INFRASTRUCTURE

TRANSPORT

The transport infrastructure plays a significant role in distributing the industrial output of Gagauzian enterprises. The transport system of the region comprises automobile and railway transportation. The system of road transport includes 457,8 km of roads, including 445,9 km with hard covering. From the general length of the automobile roads, 219,8 km are national, and 238 km - local. The total length of railway lines is 102,6 km. A secondary railway branch crosses the region passes, with a significant role in exports.

Data on roads length has not changed during the last ten years, because the infrastructure development was idle due to lacking financial resources. This had a direct impact on the development of the industry and export from the Gagauzian region. This assumption is strengthened with results of the survey conducted with the local companies. Companies named the bad roads among the core obstacles for developing their businesses.

Approved in 2008, the National strategy of ground transport infrastructure implies the repairing during the next 10 years the national and local roads. In the renovation plan are included almost all the national roads crossing Gagauzia, but the government of the country has to find the necessary financial funds in order to accomplish these actions. The approximate estimations, based on the calculations of the National strategy, show that 400-500 million MDL (in current prices) are required to fix the roads in Gagauzia during the next 10 years. At the current road fund does not cover the needs: in 2007 it was 1,5 millions MDL, which is less than in 2006, when road allocations were 2,5 millions MDL.

Another important fact is the geographic position of the region and its proximity to the Ukrainian ports (Odessa, Ilyiciovsk and Reni) and Romanian port of Galati. Launching the Giurgiulesti terminal will increase the need for safe road transportation.

ELECTRICITY

The access to the fixed and mobile telephony in ATU Gagauzia is greater than in other regions of the southern area of Moldova. During the interviews with the mayors of Gagauzian communities, it came out that communication services are largely available (Table 15).

Table 15 Degree of communication land line and mobile phone utilization in towns of Gagauzia towns, 2008

	Land telephor	Mobile telephor
Full or almos covering	13	5
More than 50%, k	5	4

full		
Partially (<50%)	1	5
Almost no cov (<10%)		3
No coverage		2

Sources: Survey with the population of the region's communities

Internet is also accessible, but the market is not developed yet. There is only one internet provider in the region – JSC Moldtelecom. There is a small demand for Internet-services, mainly coming from local companies. Future demand from companies, may contribute to developing internet services.

ENERGY

Gagauzia imports electricity and natural gas. The energy sector has an important role in the industrial structure of Gagauzia – 18,8%. It includes 4 enterprises: "Red Sud" JSC, "Rețele termice Comrat", "Rețele termice Ciadîr-Lunga" and "Rețele Termice Vulcănești". Despite the 7% growth, this increase was generated only by growing Red Sud JSC activity, while other companies posted negative growth. All these companies reduced their labor force. This measure was applied by companies specialized in heat supply. The volumes of natural gas, supplied to consumers by Gagauz-gaz company (local branch of MoldovaGaz) have decreased in 2007 in compared to 2006 by 21,3%¹⁴ (Table 16).

All villages of Gagauzia have access to the energy supply network, while gas is supplied to 96,9% communities. Meanwhile, only 79% households are connected to the gas pipeline. The main reason for it is the growing price for energy population emigration.

Table 16 Natural gas consumption by households in ATU Gagauzia, during 2004-2007, thousands m3

Natural gas consume in ATUG				
Natural gas consume in ATUG cities				
Natural gas consume in ATUG comm				

Source: ATU Gagauzia department of statistics

The existent enterprises supply electrical and thermal energy, however there is not export of it. There have been no measures undertaken for developing alternative sources of energy.

¹⁴ NAER, final report - 2007.

CONCLUSIONS AND RECCOMENDATIONS FOR THE DEVELOPMENT OF THE REGIONAL INFRASTRUCTURE

ATU Gagauzia has a favorable geographic position: it is intersected by several important national roads. Still, as it is reflected in the SWOT Analysis 4, infrastructure in the region is poorly developed. Information technologies have not become, at the current moment, a vital for companies. The energetic sector is similar Republic of Moldova; the region imports resources, and there is little attention paid to alternative sources.

SWOT Analysis 4 Regional infrastructure

Strengths	Weaknesses
Favorable geographic position; Railway network; Automobile roads; Majority of communities have access to energy utilities (electrical energy, natural gas); Large access to the land and telephony	Poor road infrastructure; Road network has not been expanded ever since; Weak and a low use of information technologies (Internet and others)
Opportunities	Threats
Access to the Giurgiulesti port; Attracting external financial sources for enlarging and recovering the transport infrastructure; New Internet providers and new telephony operators; Developing renewable energy; Using computer classes for supporting companies	No progress in building the infrastructure; Growing prices for energy resources

Taking into consideration the conclusions that result from this chapter, the Gagauzian authorities may consider the following key recommendations:

- Road infrastructure is poor, which is the cause of few financial resources necessary for maintenance. Taking into consideration that the biggest share of export is transported with vehicles, bad roads constitute an obstacle for promoting exports in the region. The implementation of the National strategy of Ground Transportation would improve roads,

but additional work needs to be done for dealing with local roads. At the current moment, regional authorities have limited resources. Therefore it is necessary to resort to the national budget. Foreign investors can also contribute to accomplishing these measures. However taking into consideration that mostly likely the strategy will be financed by international donors, foreign private investor contribute will be limited.

- Lately, it was examined the option of an air route to ATU Gagauzia, but it is clear that this subject is not a priority for the region. However taking into account the proximity of the Chisinau airport to the one in Cahul (which is currently not operating), this idea may not find support. In any case it is recommended to conduct a technical and economic analysis of the project.
- As the rest of country, ATU Gagauzia is fully dependent on energy import. It is less likely that this situation will change in the near future. However there is potential for Gagauzia to develop small capacities for generating energy, such as solar or wind power. The region has favorable climate conditions for developing these capacities (see the chapter on Natural resources). This energy can be initially produced in small amounts, (to power a household – community) and decrease to some extent dependence on costly energy materials. Taking into account the general capacity of agriculture in the region, a real scenario would be producing bio fuels to power small communities.
- One of the disadvantages of telecommunication infrastructure is the limited use of Internet by private companies and other users. This is an obstacle to world information access and company growth. In order to explore the telecommunication opportunities it is necessary to increase the number of Internet providers. This can be accomplished even by conducting a dialogue between regional administration and private companies. New companies will diversify the services and technologies, by conducting seminars on electronic data exchange applicable in world business. If there will be a center launched on teaching how to use electronic information in business, it will increase the labor skills in specific sectors.

9. GENERAL CHARACTERISTIC OF THE AGRICULTURAL SECTOR IN ATU GAGAUZIA

Agriculture is one of the main branches in the region. Particularly agriculture is the base of the processing industry, which consists 85% of food industry. Agriculture accounts for 20% of gross output of the region. It employs 25% of the population from Gagauzia. Climate has an important role for agriculture, especially the frequent droughts are damaging the general yield. According to some estimations, 20,3% of arable land are subject to erosion. The total area of farm estates account for 4,37% of the arable land in Republic of Moldova. The land destination has not changed during 2005-2007 years (Table 17). Taking into account limited amount of precipitations in the region, the key role is using proper farming technologies and crop rotation.

Table 17 Land structure in ATU Gagauzia, 2005-2007 years

Farm land	2005		2006		2007	
	Area	Share total area RM, %	Area	Share total area %	Area	Share total area %
Agricultural land	109	4.35	1	4.37	1	4.37
including						
Arable land	9	4.96	8	4.88	9	5.04
Multiyear plant	1	5.96	1	5.95	1	5.83
Pasture	2	0.81	2	1.05	2	0.96
Recovering land	1	0.55	8	0.36	1	0.55
Forest resource	1	3.3	1	3.34	1	3.35
Water resource	3	4.06	3	4.09	4	4.4
Roads	2	x	2	x	2	x
Other agricultural land	1	0.52	1	0.5	1	0.49

source: elaborated based on data provided by Regional office of agricultural management in ATU Gagauzia

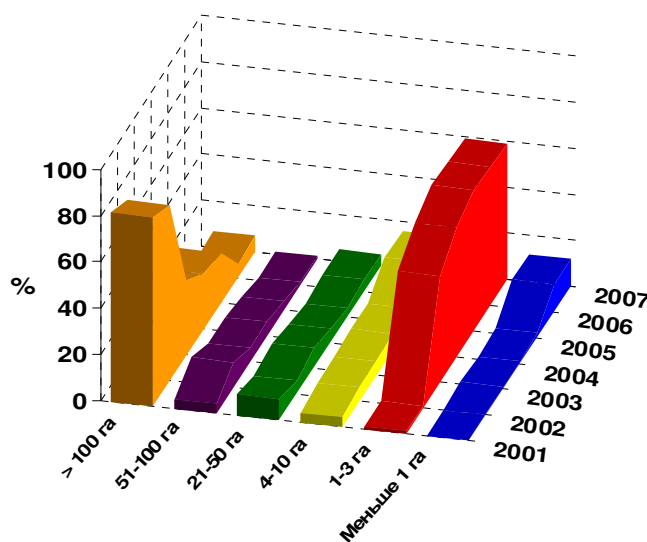
In order to evaluate the agricultural potential, we suggest analyzing the figures for farms during 2001-2007 years (Figure 16). During this period the number of farms with 51-100 ha area of lands has decreased. However the number of farms with 1-3 ha of land has increased to 80% of total. Another tendency is the increasing share of farms which hold 4-10 ha of land – 16% in 2007 (Similar farms are common for Greece and

Portugal). This group of farms supplies a higher amount of output to the market. If they increase the land area or production output, these farms may turn into commercial enterprises.

The land structure of the farms changed after the «Pământ» program in 1999-2000, according to which individual farmers received equivalent land shares. The purpose of the reform was to adjust agriculture to market principles. In turn this generated several small farms companies to appear, which own small land lots. By breaking up land into small pieces, farmers started to practice traditional methods for working the land and forget about market intentions (the system becomes closed, oriented towards internal meeting personal needs).

No having a supporting mechanism for implementing the reform, majority of land owners faced difficulties in working independently the land. Most landowners rent their lots of larger farms. These tendencies become clearer now. It came out that bigger farms (more than 500 ha in area each) own 75-80% of agricultural land. Most commonly labor is remunerated with crops at a cheap price.

Figure 16 Distribution of farm lands by areas of cultivated lands, during 2001-2007, % of total volume



Source: elaborated by Expert-Grup using the date provided by Agricultural Management Office of ATU Gagauzia

The listed circumstances had an influence on population size, employed in agriculture (see chapter 3). During 2001-2007 population employed in regional agriculture, diminished 2,2 times against 1,6 for the entire country. At the same time, the total area of land used in agriculture decreased significantly as well (**Error! Reference source not found.**). This can be explained by the fact that significant portion of population denies practicing agriculture due to lacking resources to overcome the difficulties currently

incurred in the sector. This situation is a result of unfavorable climate conditions, which caused population to emigrate.

Table 18 Indicator dynamics of agricultural potential in ATU Gagauzia, during 2001-2007

The share of sown area in land, %							
Number of tractors, pcs.							
Number of combines, pcs.							
Output per tractor, ha							
Output per combine, ha							
Number of tractors per employees in agriculture							
Number of combines per employees in agriculture							

Source: elaborated based on information presented by Administration of Agricultural Sector in ATU Gagauzia

In order to track to what extent decreasing number of employed population in agriculture is compensated with technical endowment we suggest taking a look at indicators describing production potential of the sector (**Error! Reference source not found.**). During 2001-2006 the number of tractors increased by 3,9%, combines– by 9,3%. As a result the area of land per unit of machine decreased. However, present endowment with equipment and machines is not sufficient. Especially this refers to combines¹⁵. There are several reasons for low technical endowment: disorganization of the agricultural market, lack of financial capital in farms, growing prices for equipment, tractors; low quality management and deprivation farmers from their capital.

In order to carry out activity in normal conditions, besides having tractors, combines and other equipment it is necessary to have raw materials part of the production process: seeds, fertilizers, fito-sanitary products (herbicides, pesticides, insecticide, etc.), water for irrigation, fuel, spare parts, etc. Majority of these products, especially fertilizers are scarce for many landowners in Gagauzia (**Error! Reference source not**

¹⁵ Providing the European experience, a normal level of output per one combine is 175-200 ha, while per one tractor– 25-30 ha, which means twice less than in Gagauzia.

found.). The volume of applied mineral fertilizers is less than minima level¹⁶, while organic fertilizers, according to regional authorities, are not applied at all. The following situation relates to irrigation: in 2004-2007 only 0,2% of farm lands were irrigated.

Table 19 The use of fertilizers in agriculture of ATU Gagauzia, kg/ha

Mineral fertilizers, inclu							
N							
P2O5							
Ka2O							
Organic fertilizers							

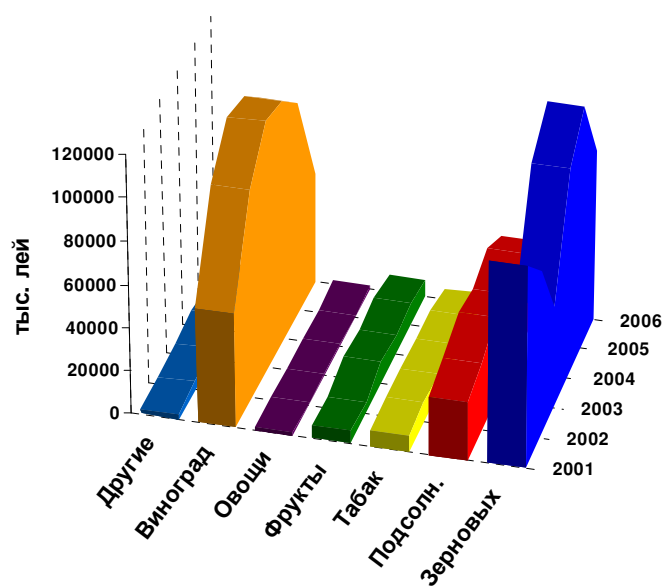
Source: elaborated based on information presented by Administration of Agricultural Sector in ATU Gagauzia

Investments in regional agriculture depend on access to financial resources. The funds of small producers are insignificant, while little resources are available for larger farms from investment fund. Bank credits (loans, external borrowings, etc) are difficult to receive, due to low payment and credit worthiness capacities of companies. The weak financial market (despite numerous banks present in the region) diminishes the chances to increase investments in the agricultural sector.

Agricultural sector development depends on the sales dynamics of different crops (Figure 17). Producer income dynamics outlines existing difficulties for each crop. The most affected were sheep breeders, tobacco farmers, horticulturists, and sun-flower crop owners.

Figure 17 Dynamic of incomes from crop sale in ATU Gagauzia, th. MDL in current prices, (associative sector)

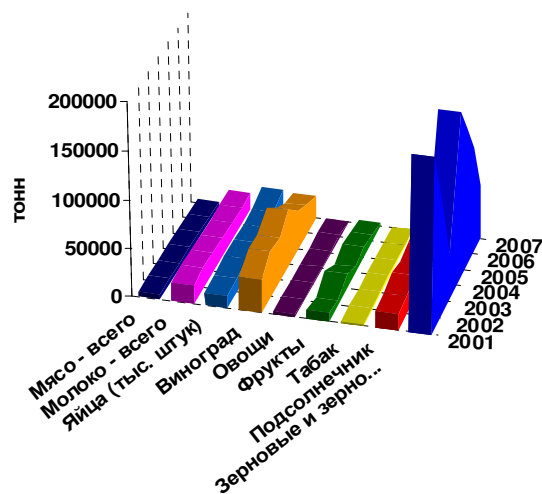
¹⁶ For one hectare of farm land, 300-400 kg of nitrogen, 80-100 kg potassium is required.



Source: elaborated by Expert-Grup based on data provided by the Administration of Agricultural Sector and ecology of ATU Gagauzia

The income from grape and tobacco sales, turned out to be less, than in 2001– because of industrial stagnation. Lower income from sales of grapes, fruits, tobacco, and sun flower is due to smaller output of these crops (Figure 18).

Figure 18 Agricultural yield in ATU Gagauzia, tons, ton



Source: elaborated by Expert-Grup based on data provided by the Administration of Agricultural Sector and ecology of ATU Gagauzia

In 2007, grain output, was only 31,4% from the output volume registered in 2001, while grape output was – 72,5%. Above stated figures prove that poor agricultural performance in Gagauzia is due not only to unfavorable climate conditions from 2007, but also sector overall work deficiency.

PLANT CULTIVATION

Plant cultivation is the main specialization of the agricultural sector in Gagauzia. Such estimation is based on not only the land area and the contribution of the plant cultivation for the food supply to the population, but also on the role of the plant growing in the animal breeding and the food-processing industry.

GRAIN CULTIVATION

Although there are a variety of sorts and hybrids for the majority of crops, and some of them are adapted to the regional conditions, most of the land continues to be sown with low quality seeds. The main reason for this is the lack of financial means and the limited opportunities to use qualitative seeds¹⁷.

Table 20: Dynamics of arable land and crop yields, during 2003-2007, 2003-2007

	2003	2004	2005	2006	2007
Area, thousand ha					
Republic of Moldova	89	10	10	91	10
ATU Gagauzia	43	60	63	52	57
ATU Gagauzia/Republic of Moldova %	4.8	5.3	6.3	5.7	5.7
The average harvest, centers / ha					
Republic of Moldova	18	27	27	25	12
ATU Gagauzia	11	29	23	21	9.5
ATU Gagauzia/Republic of Moldova %	63	10	84	85	82
Total amount of production, thousand tones					

¹⁷ A research that covered a period of ten years and dedicated to the identification of factors that contribute to the harvest of wheat has revealed the following: fertilizers contribute to the future harvest in proportion of 25%; water – 20%; herbicides – 20%; other protective materials – 14%; seeds – 10%; tillage of soil – 7%; other factors – 4% (Mihai Berca, Agricultura în tranziție. Studii și articole (1998-2001), Editura Ceres, București, 2001)

Republic of Moldova	16	29	29	22	13
ATU Gagauzia	49	17	14	11	57
ATU Gagauzia/Republic of Moldova %	3.0	6.0	5.0	4.9	4.3

Source: Data is collected from the National Bureau of Statistics of the Republic of Moldova and the Administration of agricultural sector from ATU Gagauzia

The area of lands planted with cereals has increased during 2003-2007 by approximately 33%. The average harvest per hectare was 15-17 % lower than the national indicator, excepting year 2004. (Table 20) The development of the sector, as it is depicted in the SWOT Analysis nr. 6, is marked by some problems that do not seem possible to be solved in the near future.

SWOT Analysis nr. 6 Production of cereals

Strengths	Weaknesses
<p>Relatively favorable soil and climate conditions;</p> <p>The steppe conditions of the region creates good opportunities for plant cultivation</p>	<p>Use of out-of-date industrial technology;</p> <p>Use of few certified crops; in general land is sown with plants that are not resistant to a drought;</p> <p>Some of the crops have a low productivity;</p> <p>Unsatisfactory use of storage facilities</p>
Opportunities	Threats
<p>Use in the production of the starch, glucose, and dextrin;</p> <p>Cultivation of rye, which is very useful on the lands with a low fertility and a low quantity of moisture;</p> <p>Expansion of the areas cultivated with barley, which requires less treatment than the corn, and can serve as a forage for the cattle breeding sector;</p> <p>Increase of demand and price for wheat on the regional and global markets</p>	<p>The soil erosion can further reduce the average productivity per hectare;</p> <p>Without local processing capacities for cereals, it cannot be guaranteed high incomes to the producers;</p> <p>Expansion on the global level of genetically modified crops that are not in other countries and benefit of economies of scale</p>

INDUSTRIAL CROPS

The industrial crops not only have high sale prices, but also contribute to creating additional workplaces in the countryside, and are specific because the market for them is quite stable. All these factors favor the production of industrial crops in the majority of farms. The two main industrial crops that are cultivated in ATU Gagauzia are the sunflower and tobacco. The production potential and the prospects of the sunflower are much higher than the ones for the tobacco, but they are not capitalized because the agricultural technologies are not implemented in the region. (SWOT Analysis nr. 7)

SWOT Analysis 7 - Production of sunflower

Strengths	Weaknesses
<p>It can be cultivated on clay, loam and sandy soil, which favors the penetration of the roots;</p> <p>The existing traditions and experience in cultivating this plant</p>	<p>The agricultural technologies are not implemented properly;</p> <p>The lack of interest towards the cultivation of sunflower due to the low production per hectare;</p> <p>The inefficient organization of networks for each kind of production;</p> <p>The low quality of the raw material compels the companies from the oil industry to import sunflower seeds from the EU countries</p>
Opportunities	Threats
<p>Integration within the sector of manufactures with the companies that produce the vegetable oil;</p> <p>The existence of conditions that allow the cultivation of sunflower along with beekeeping;</p> <p>Purchase of an American investment in a local vegetable oil factory</p>	<p>The sunflower consumes plenty of nutritious elements of the ground;</p> <p>Threat of a severe reduction of production in case of a drought;</p> <p>Competition from more efficient enterprises from the neighboring regions or countries</p>

The areas cultivated with sunflower in ATU Gagauzia have been constantly reduced and consisted in 2007 about 69% of the areas from 2003, or 6-7% of the aggregate volume in the Republic of Moldova. (Table 21) Until recently, in the region there was no enterprise on processing the seeds of sunflower. This has led to the fact that producers are not interested in achieving high results in the industry. Processing the seeds outside the region has also led to the fact that the greatest share of the added value in the production chain was in hands of outsiders. Until the end of 2008 will start

to work the vegetable oil factory, but its capacities are not enough to process all the quantity of raw materials from the region.

Table 21 Dynamics of the cultivated areas and the harvest of industrial crops, 2003-2007

	Area, thousand ha					Average yield, th. tons / ha					Total amount of production, th. tons				
Republic of Moldova															
Share of tobacco															
Total production															
ATU Gagauzia															
Share of tobacco															
Total production															
ATU Gagauzia / Republic of Moldova, %															
Share of tobacco															
Total production															

Source: Data is collected from the National Bureau of Statistics of the Republic of Moldova and the Administration of agricultural sector from ATU Gagauzia

Speaking about tobacco, the areas cultivated with this plant decreased by 40 % in 2007 as compared to 2003, while the share of tobacco from ATU Gagauzia in the total production in the Republic of Moldova equaled 18.1 % in 2007, compared to 16.2% in 2003. Although the harvest per hectare was almost equal to the national indicator, the volume of tobacco production equaled 50% of its level from 2003 (because of the drought from 2007). The tobacco production is not entirely sold on the internal market.

VITICULTURE

A simple analysis confirms that the profit of vine growers from one hectare is 3-4 time higher than compared to the cultivation of grains. As a result of an increasing demand from the wine-making factories, the areas cultivated with vineyards in the region have increased by 5.84%. Accordingly, the share of vineyards from ATU

Gagauzia in the total amount per country has increased to 9.9%, in 2006 this share equaled 9.1% (Table 22).

Table 22 Dynamics of cultivated area vineyard yields, 2003-2007

	2	2	2	2	2
Area, thousand hectares					
Republic of Moldova	1	1	1	1	X
ATU Gagauzia	1	1	1	1	1
ATU Gagauzia / Republic of Moldova	8	9	9	9	X
Average harvest, centers / hectare					
Republic of Moldova	4	4	3	3	3
ATU Gagauzia	3	4	3	3	1
ATU Gagauzia / Republic of Moldova	8	9	8	9	6
Total amount of production, thousand tones					
Republic of Moldova	6	6	5	4	
ATU Gagauzia	4	5	4	3	
ATU Gagauzia / Republic of Moldova	6	8	7	6	

Source: Data is collected from the National Bureau of Statistics of the Republic of Moldova and the Administration of agricultural sector from ATU Gagauzia

At the same time, the total amount of grapes production reduced in 2007 as compared to 2003 by 45.86%. The main reasons for this were the uprooting of old plantations, the plantation of new modern sorts, as well as the drought from the summer of 2007. It is necessary to emphasize that although the draught from 2007 had uniformly affected the country, in ATU Gagauzia the average harvest of grapes reduced by almost 40%, while the average indicator per country did not change substantially.

Table 23 Dynamics of cultivated area and vineyard yields (industrial and table grapes) in ATU Gagauzia, 2003-2007

	2	2	2	2	2
Industrial varieties					
Area, thousand ha	1	1	1	1	1
Average harvest, centers / ha	3	4	2	2	1
Total amount of production, th	3	4	3	2	2

tones					
Table varieties					
Area, thousand ha	2	1	2	2	1
Average harvest, centers / ha	4	4	3	1	1
Total amount of production, the tones	8	9	6	3	3
Total cultivated area, thousand ha	1	1	1	1	1
Total amount of production, the tones	4	5	4	3	2

Source: Data is collected from the National Bureau of Statistics of the Republic of Moldova and the Administration of agricultural sector from ATU Gagauzia

The area cultivated with industrial sorts has increased by 9.1%, while the area for table varieties decreased by 10.8% (Table 23). In general, such a tendency corresponds to the situation in the region, since the industrial varieties better resist to specific climatic conditions of ATU Gagauzia.

SWOT Analysis 8 Winegrowing

Strengths	Weaknesses
<p>Winegrowing has long traditions in the region;</p> <p>In the whole region there are favorable climatic conditions;</p> <p>Existence of a stable demand from the wine-making industry</p>	<p>There are still sorts that are not resistant to drought;</p> <p>The agricultural works are not done in time and in the right manner;</p> <p>The exploitation term has expired for the majority of plantations;</p> <p>The great majority of private producers do not have a professional training in the field of winegrowing</p>
Opportunities	Threats
<p>Orientation in the long-term on growing industrial sorts, as they are more resistant to drought than the table sorts;</p> <p>Use in winegrowing of portable systems for controlled and balanced irrigation;</p> <p>Executing in time and according to international standards the technological works for maintaining the moisture in the soil;</p>	<p>Threats related to the global warming and the increase of the frequency of extreme weather events;</p> <p>The inability of the winemakers to implement the international standards is a serious threat for the development of the winegrowing sector;</p> <p>The expansion of vineyards areas is limited by the shortage of labor force for harvesting.</p>

The integration between the wineg and winemaking sector	
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FRUIT GROWING

The problems related to gardening in ATU Gagauzia are present all over the territory of the country. The sector cannot face the foreign competition, and the output per hectare is diminishing due to low investments in the development of production capacities. The difficulties of the sector have led to a sharp decrease in the fruits supply during 2003-2007 (table 24).

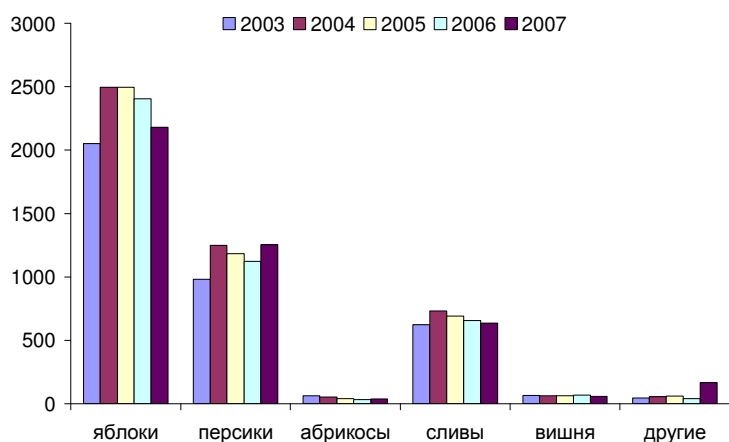
Table 24 Dynamics of cultivated area and fruit yield, 2003-2007

	2	2	2	2	2
Area, thousand hectares					
Republic of Moldova	1	1	1	1	X
ATU Gagauzia	3	4	4	4	4
ATU Gagauzia / Republic of Moldo	3	4	4	4	X
Average harvest, centers / hectare					
Republic of Moldova	5	4	3	3	X
ATU Gagauzia	4	1	3	1	1
ATU Gagauzia / Republic of Moldo	7	3	8	6	X
Total amount of production, thousand tones					
Republic of Moldova	6	4	3	3	X
ATU Gagauzia	1	7	1	8	4
ATU Gagauzia / Republic of Moldo	2	1	3	2	x

Source: Data is collected from the National Bureau of Statistics of the Republic of Moldova and the Administration of agricultural sector from ATU Gagauzia

In 2003-2007 the area cultivated with horticultural crops increased by 13%, and its weight in the total amount per country increased by about 19.5%. At the same time, the total amount of fruits production has reduced by 70.3% compared to 2003, because of the drought from 2007. In general, apples, peaches, and plums prevail. (Figure 20)The size of the plantations with these fruits has basically remained unchanged during 2003-2007, which confirms the difficulties experienced by the sector (SWOT Analysis 8).

Figure 20 Dynamics of areas cultivated with horticultural crops in ATU Gagauzia, ha



Source: Data prepared by "Expert-Grup" based on information from the Administration of Agricultural Sector and ecology of ATU Gagauzia

SWOT Analysis 9 Horticulture

Strengths	Weaknesses
<p>Favorable soil and climate conditions;</p> <p>A relatively high biological potential of the existent orchards;</p> <p>The rural population has a rich experience in horticulture;</p> <p>The existence of opportunities to introduce non-traditional horticultural sorts (woody plants or shrubberies that produce fruits, etc.), the possibility to increase the productivity of the plantations</p>	<p>Absence of adequate refrigeration equipment that forces producers to sell their fruits for very low prices;</p> <p>Weak development of the canning industry;</p> <p>Use of out-of-dated agricultural technologies;</p> <p>Absence of an effective marketing strategy both for the internal and external markets;</p> <p>Difficulties to obtain financing</p>
Opportunities	Threats
<p>Increase of fruits consumption in the market;</p> <p>The possibility to integrate the ecological production with the processing and marketing processes;</p> <p>Increasing the competitiveness of ecological fruits production based on producers' associations, and as a result, the implementation of several</p>	<p>The impossibility to make a profit in horticulture, because of the domination in the market of the suppliers of raw materials, processing companies, intermediaries, and other commercial structures;</p> <p>Plantation of new high-productive varieties without the organization of production of non-virus planting material</p>

projects;	
The advantages of cultivating the fruits, which, as a rule, are less exposed to diseases (except for viruses). In this respect, it is necessary to implement advanced management techniques in the field of production and certification of planting materials	

VEGETABLE GROWING

Growing vegetables is important for the region, because it is one of the most intensive agricultural branches. At the same time, one hectare cultivated with vegetables requires expenditures 10-12 times higher than a hectare cultivated with wheat. Cultivation of vegetables demands involvement of a large number of workers (approximately 30-60 % of the production cost). Analyzing the dynamics of cultivated areas with vegetables, we can observe that during 2003-2007 they have increased by 44%, which is equal to about 0.42% of the total area per country (Table 25).

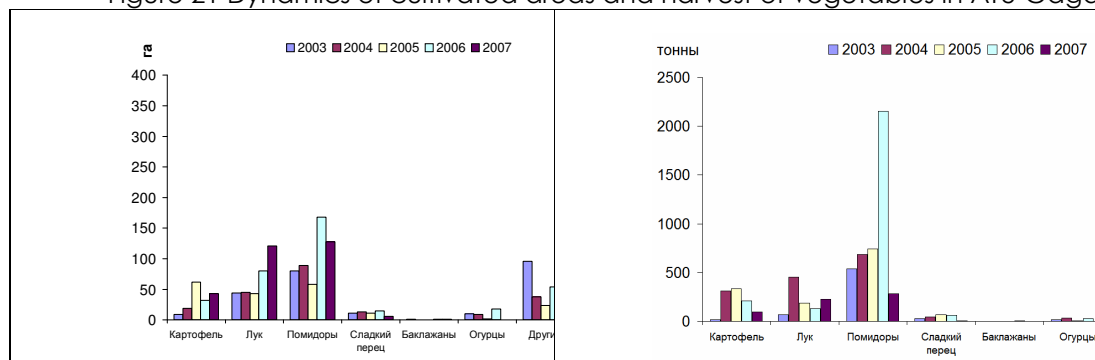
Table 25 Dynamics of the cultivated areas and yield of vegetables, 2003-2007

	2	2	2	2	2
Area, thousand hectares					
Republic of Moldova	8	7	7	8	X
ATU Gagauzia	0	0	0	0	0
ATU Gagauzia / Republic of Moldova	0	0	0	0	X
Average harvest, centers / hectare					
Republic of Moldova	8	8	1	1	X
ATU Gagauzia	4	8	7	7	1
ATU Gagauzia / Republic of Moldova	5	9	6	6	X
Total amount of production, thousand tones					
Republic of Moldova	7	6	8	9	X
ATU Gagauzia	1	1	1	2	0
ATU Gagauzia / Republic of Moldova	0	0	0	0	x

Source: Data is collected from the National Bureau of Statistics of the Republic of Moldova and the Administration of agricultural sector from ATU Gagauzia

Despite the increase of the cultivated area, the total amount of production has considerably varied. In 2007 it reduced by 43.6% in comparison with 2003, whereas in 2006 it was 2.5 times higher than in 2003. In general, per branch the dominating crops are tomatoes, onion, and other crops (Figure 21).

Figure 21 Dynamics of cultivated areas and harvest of vegetables in ATU Gagauzia



Source: National Bureau of Statistics of the republic of Moldova and the Administration of Agricultural Sector and ecology of ATU Gagauzia

The change in the volume of gross production of vegetables is caused by the lack of interest from the side of producers, because of the low procurement prices for the vegetables offered by the canneries. In addition to this, the delays in payments only worsen the situation in the branch (SWOT Analysis 10).

SWOT Analysis 10 Vegetable-Growing

Strengths	Weaknesses
<p>Existence of non polluted areas on which can be applied technologies specific for ecological vegetable growing;</p> <p>Ensuring incomes from net sales for a round on the basis of growing vegetables in the winter in protected areas</p>	<p>The insufficient or the total absence of control over the application of mineral and organic fertilizers, especially with respect to the frequency, time, and quantity of applying these substances;</p> <p>Use of sorts that have a low resistance to diseases and insects;</p> <p>Import of crops' seeds that do not correspond to the regional conditions;</p> <p>The absence of an organized production price, promotion, and realization channels;</p> <p>The producers of vegetables experience a shortage of capital;</p> <p>Limited opportunities to use the irrigation of vegetables in comparison with other crops;</p>

	central and northern regions of country;
Opportunities	Threats
<p>Increase of the export opportunities sector due to the diversification sale-markets;</p> <p>Implementation of the eco vegetable-growing through increasing competitiveness of small producers alternative to the competition created by the big producers of vegetables;</p> <p>Creation of refrigerating storehouses for the vegetables in order to sell them in fall and winter time;</p> <p>The opportunity for a more effective use of the sector of the soil and climatic conditions</p>	<p>Loss of traditional sale-markets: Russia, Federation, Belorussia, Ukraine;</p> <p>Low incomes from selling the products on external markets, because of the absence of an effective export strategy, the existence of difficulties in the processing and sorting the production, the use of inadequate packaging, etc.</p>

FORAGE PLANTS

Forage harvest is the basis for the animal-growing industry in the region. Because of the difficulties that farmers from the region face, and the lack of interest for the cultivation of forage crops, their area reduced by 38% during 2003-2007, that is a much quicker reduction than as a whole per country (table 26).

Table 26 Dynamics of cultivated areas with forage crops, 2003-2007

	2003	2004	2005	2006	2007
Republic of Moldova	80.1	66.1	67.1	77.1	X
ATU Gagauzia	5.9	3.6	3.2	2.6	3.6
ATU Gagauzia/Republic of Moldova, %	7.3	5.5	4.8	3.4	x

Source: Data is collected from the National Bureau of Statistics of the Republic of Moldova and the Administration of agricultural sector from ATU Gagauzia

SWOT Analysis 11 Forage plant harvest

Strengths	Weaknesses
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Rather favorable environment;	<p>The lack of motivation to expand the areas cultivated with forage crops, introduction of intensive technologies;</p> <p>Difficulties to sell the production for high prices;</p> <p>The absence in the region of a developed animal-growing sector;</p>
Opportunities	Threats
<p>Use of high productive forage crops</p> <p>Conclusion of cooperation contracts between the enterprises from the animal-growing sector located in the region and neighboring districts;</p> <p>Integration of the forage crops production with the animal-growing sector</p>	<p>The absence of opportunities to expand the areas cultivated with forage crops because of a underdeveloped market</p>

CONCLUSIONS AND RECOMMENDATIONS FOR INCREASING VEGETAL PRODUCTION

In order to avoid losses of the harvest it is necessary to carry out specific agro technical works; to fight the soil erosion, or to balance the acidity level of the soil; to increase the forest plantations; to implement an integrated system for fighting diseases, insects, and weeds, which would be based on a rational combination of all the protection methods (chemical, biological, physical, agro technical).

The farmers from the region should specialize in producing different crops, in order to use effectively the existent agricultural machines. Currently, farmers cultivate a great variety of crops, without obtaining significant economic benefits. In the long run the specialization process will encourage the mechanization of work, specific to each agricultural crop, by means of credits or leasing, which are becoming more popular in the country. According to our estimations, currently one person employed in the agricultural sector in ATU Gagauzia spends 8-10 times more working time for obtaining the same result as a person from the EU countries. This leads to a significant increase of the cost of the labor force that corresponds to a unit of production. The rather cheap, but numerous labor force does not serve as a factor of reducing the cost of production, but, on the contrary, implies an increase in sale prices of the agricultural production.

The producers from the agricultural sectors should switch from supplying raw materials to supplying agricultural products with a higher added value. The existence of intermediaries substantially reduces the capability of farmers to take decisions about what to produce, what to procure, or what to sell. It is possible to reduce the influence of intermediaries by creating cooperation between agricultural producers (trade-

union associations), and by using the information and consulting services in the field of business.

Currently ATU Gagauzia is characterized by a traditional agriculture. The transition to the market agriculture requires that the farmer should have a good professional training, and a lot of knowledge that would exceed the limits of his/her specialization. Thus, for increasing the labor productivity is necessary to undertake measures aimed at increasing the average harvest per hectare. In addition to this, is also essential to adopt measures for improving the whole structure, especially the quality of the labor force, increasing the professional and the general training of farmers (from the leader to the simple worker). Furthermore, it is required to improve the organization of the production process and the labor force in order to reduce the number of people employed in the agricultural sector in accordance to the needs of the branch, which would also stimulate its further growth.

The organization in the region of efficient agricultural unit from the economic point of view requires the realization of serious and thorough researches that would take into account the set of technical, technological, natural, social, economic, and market factors. The authors recommend not creating a system that would give special preference to large-scale enterprises. On the contrary, considering the human resources available in the countryside, and the necessity of transition to an ecological agriculture, it would be optimal to create medium size farms that would facilitate simultaneously the crop rotation and the achievement of economic efficiency. For the steppe conditions of ATU Gagauzia, the rational crop rotation for the flat areas should be based on 7-10 crops on an area of 50-60 and 100 hectares. The researches on the optimum productivity of crop rotations have revealed that the most effective ones are those done in more than three years.

For large farms, which area is bigger than 100 hectares it is recommended to undertake the following measures:

Appropriate differentiation of the limits for each farm, correction of border boundaries for eliminating the disorder, integration of the fields, establishment of a legal status, and the strict differentiation of cultivated fields;

Arrangement and differentiation of the organizational structures, networks of communication means, and also the crop rotation corresponding to the specialization, the existent agricultural machines, which would also take into account the economic and technological criteria;

A combination of the territory organization with the programs of environment preservation, preservation of biodiversity, and carrying out the long-term use of the grounds (through a small-scale irrigation, fight against soil erosion, drainage, etc.);

The estimation of the quality of land as the basis for estimating the threats for the production area;

Specialization of production, improvement of the organization of production and labor force, mechanization of agricultural works based on implementing modern technologies that allow a rational use of the available agricultural machines;

For the small farms, it is recommended to create conditions for the property concentration by the means of renting or letting, cooperation and association of farmers, modernization of technologies, and increasing the professional level of farmers. The cooperation and association processes will promote the development of the commercial production, and will favor the formation of advanced agricultural structures and agricultural food production.

In ATU Gagauzia there are also practical opportunities to develop the ecological agriculture, such as:

Opportunity to realize it on small areas;

The natural resources are used for a long time;

The traditional technologies used in the region serve as an advantage;

The obtained food products possess safe nutritious ingredients that are useful for the consumers;

The obtained incomes are much higher;

Use of the existent labor force, since the ecological agriculture requires a higher volume of labor force;

The demand for ecological products has opened new export opportunities.

The development of the agricultural production in the conditions of maximal economic efficiency is achievable on the regional or local level based on the combination between the vegetative and animal-breeding sectors. Thus, it would be possible to provide the optimal amount of production, because will exist an interdependence between resources needed for the development of animal breeding, and resources needed for the vegetative sector.

To create a Center for agricultural consulting within the Agro-Technical College from village Svetlii of, and financing its activity. This center will offer to the producers from the region professional training in the field of agriculture, horticulture, cattle breeding, and agro tourism.

More effective information of the agricultural producers about the agricultural and land markets, legislation on land, rendering support in changing the destination of low-productive land.

Supporting the development of small processing industry in the countryside, and the use of local facilities for the primary processing or storage.

Increasing the forest plantations in areas where there is a shortage of wood vegetation; improvement of the maintenance and forestations schemes, using the domestic valuable and mixed sorts.

Introduction of new sorts more resistant to drought, insects, and diseases, so that the new gardens would consist only of the plants included in projects, taking into

account, first of all the optimal needs of the recommended sorts, and the environmental factors.

9. LIVESTOCK SECTOR

Analyzing the situation in the livestock sector, we can observe that the cattle livestock and the volume of cattle-breeding production have steadily decreased. This is caused by the change of ownership structure, failure of the adaptation process to the market economy, and also the shortage of financial means that the producers from this sector experience. The shortage of financing has limited investments in the cattle-breeding sector.

Cattle breeding

The cattle meat plays an important role in the diet of the population from the region. The prospects for increasing the production of cattle depends in many respects on the consumption of milk and meat, the ration between the supply and demand on them, and other favorable conditions for the development of the sector. In addition to this, the effectiveness of breeding cattle depends a lot on the maintenance system, the applied technologies, and the size of the farms. For example, in the EU the average size of the farms is 30-50 head of cattle, while the optimal variant is considered to be the mixture of breeds (for meat and for milk).

The number of cattle has constantly decreased during 2001-2007 by approximately 32.3%, and constituted 3.47-4% of the whole amount per country (table 27). The number of cattle-breeding farms reduced 2.7 times in comparison with 2001. The volume of produced beef has remained within the limits 0.7-0.9 thousand tones that is 4.42-5.5 % of the whole volume per country. The volume of milk also remained unchanged (with some fluctuations) at the level of 16-17 thousand tones, or 2.7-3% of the total volume per country.

Table 27 Dynamics of cattle population, meat and milk production, 2001-2007

Repu Mold	Number of breeding farms							
	Number of thousand							
	Volume of produced, the tones							
	Volume of produced, the tones							
ATU Gag	Number of breeding farms							

	Number of thousand							
	Volume of produced, thousand tones							
	Volume of produced, thousand tones							
ATU Gag Repu Mold %	Number of breeding farms							
	Number of thousand							
	Volume of produced, thousand tones							
	Volume of produced, thousand tones							

Source: National Bureau of Statistics of the republic of Moldova and the Administration of Agricultural Sector of ATU Gagauzia

Although in ATU Gagauzia, there are certain traditions in breeding cattle, and the labor force needed for the dispatch of characteristic works in this sector is relatively cheap in the region, nevertheless, the condition of the branch is deplorable. One of the biggest weaknesses of the sector is the absence of an effective cooperation with the meat and milk processing industry. In ATU Gagauzia basically there are no producers of milk and meat products, therefore part of the added value "migrates" outside the limits of the region. The cattle breeding for milk or meat is done mainly on farms that have a small number of cattle, which entails significant expenditures from the possible processing companies. Additionally, the absence of financial means and the elementary knowledge about the sanitary norms impede the maintenance of technological requirements and the manufacture of attractive product. (SWOT Analysis 12)

SWOT Analysis 12 Cattle breeding

Strengths	Weaknesses
<p>Traditions in breeding cattle;</p> <p>Relatively qualified labor force;</p>	<p>Absence of an effective cooperation with the milk and meat processing industry;</p> <p>Cattle is breed for meat or milk or for both with a small number of livestock;</p>

	The fact that the cattle breeders have financial means impede maintenance of all technical requirements
Opportunities	Threats
<p>Use of modern genetic materials;</p> <p>Optimal use of natural conditions and opportunities, correspondingly, the crops for cattle;</p> <p>Integration of the cattle breeding with the processing industry;</p> <p>Establishment of a professional organization in the sector</p>	<p>Infringement of biological safety which has a negative effect on the environment;</p> <p>Absence of effective services for purchase, processing, and sale of dairy and meat products, with the realization of monitoring and the maintenance of European standards;</p> <p>The incomes received from the sale of dairy and meat products are lower than the expectations of the cattle breeders</p>

PIG BREEDING

From the point of view of the biological material, the quality of the pigs bred in the region can be divided in two categories: an appropriate quality at the enterprises that use the intensive breeding of pigs, and a low quality for the private farmsteads. The pig-breeding sector is experiencing a decline (Table 28). The main reason for this is the disbandment of many farms, while another reason can be the reduction of forage resources (SWOT Analysis 13).

Table 28 Dynamics of pig population and pork production, 2001-2007

Republ Mold	Number of pig-breeding farms							
	Number of pigs, thousand							
	Volume of pork produced, thousand tons							
ATU Gagauzia	Number of pig-breeding farms							
	Number of pigs, thousand							
	Volume of pork produced, thousand tons							
ATU Dubasari								
	Number of pig-breeding farms							

Gag Repu Mold %	farms							
	Number of pigs, thou							
	Volume of produced, thousand							

Source: National Bureau of Statistics of the republic of Moldova and the Administration of Agricultural Sector of ATU Gagauzia

The livestock of pigs with some deviations (for example in 2003) practically did not change in comparison to 2001 – its share is equal to about 3-3.7 % of the total amount of pigs livestock in the Republic of Moldova. At the same time, the number of farms reduced by 2.1 times. The volume of produced pork was in the limits of 1.35-1.46 thousand tones (excepting years 2002 and 2003, when the volume equaled 1.94 and 1.72 thousand tons respectively), which is approximately equal to 3-4% of the total volume in the Republic of Moldova.

SWOT Analysis 13 Pig-breeding

Strengths	Weaknesses
<p>This an old and traditional activity regional population;</p> <p>Existence of facilities that can be reequipped and modernized for the breeding</p>	<p>The insufficient forage reserve (sun and soy);</p> <p>The low percentage of muscular fiber (42%) of some pigs grown in private where the inappropriate forage is used (misuse of corn);</p>
Opportunities	Threats
<p>The stable pork consumption on internal and external markets;</p> <p>Use of breeds with a high growth potential;</p> <p>Application of a balanced forage that will allow to better use the internal potential;</p> <p>Integration of the sector with the processing industry</p>	<p>The discrepancy between production and the market demand;</p> <p>Difficulties to create a closed cycle between the production of raw meat and its processing;</p> <p>Difficulties to implement technologies of artificial insemination;</p> <p>The impossibility to reduce the consumption of forage per 1 kilogram of pork</p>

SHEEP BREEDING

The main purpose of the sheep breeding in the region is to manufacture wool, and in addition to it the production of milk and meat. In the actual conditions, the sheep

breeding ensures for the breeders a stable source of income, although, speaking about the wool, the situation is not so good. In the EU countries the wool costs 0.3-0.5 Euro/kg. Thus, the income from selling the skin of one sheep does not cover the expenditures of its shearing. In ATU Gagauzia the manual shearing of sheep may be more profitable, but in this case it would be necessary to organize the procurement of wool for individual households.

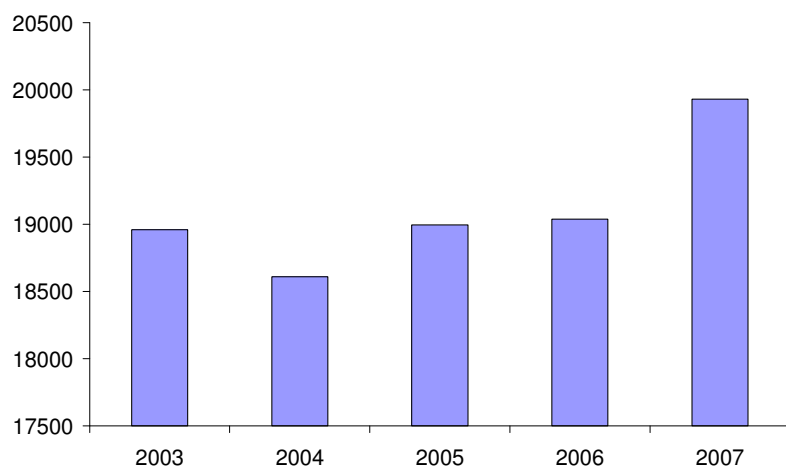
Table 29 Dynamics of sheep population and meat production, 2001-2007

Repu Mold	Number of sheep bre farms							
	Livestock of thousand							
	Volume of meat prod thousand tones							
ATU Gaga	Number of sheep bre farms							
	Livestock of thousand							
	Volume of meat prod thousand tones							
ATU Gaga Repu Mold	Number of sheep bre farms							
	Livestock of thousand							
	Volume of meat prod thousand tones							

Source: National Bureau of Statistics of the republic of Moldova and the Administration of Agricultural Sector of ATU Gagauzia

The livestock of sheep in 2001-2007 has increased by 10.1%, and equaled almost 11.6-12.7% of the total livestock per country (table 29). Until the end of 2005, the number of farms was reducing, but at the end of 2007, it increased. The volume of produced mutton increased by 28%, and at the same time increased its weight in the total volume in the Republic of Moldova – from 43.8% in 2001 to 60.8% in 2007. This data testifies that the region is an important producer of mutton for all the country. The volume of produced milk (Figure 22) has increased by 1.96 % in comparison with 2003 (the small increase is due to the draught from 2007).

Figure 22 Dynamics of sheep milk production in ATU Gagauzia, tones



Source: National Bureau of Statistics of the Republic of Moldova and the Administration of Agricultural Sector and

ecology of ATU Gagauzia

SWOT Analysis 14 Sheep breeding

Strengths	Weaknesses
<p>One of the most representative branches of animal breeding;</p> <p>Sheep breeding requires less maintenance conditions than cattle</p>	<p>Sheep are bred in small flocks on private farmsteads;</p> <p>The difficulties related to the sale of sheep and goat milk, meat, and skins;</p> <p>Those who breed sheep and goat have problems to find capital</p>
Opportunities	Threats
<p>Increase of the mutton demand in the world;</p> <p>Obtaining the hybrids for meat and wool based on the interbreeding of foreign and local species;</p> <p>Creation of a farm for breeding goats and a plant for processing the goat products producing the cheese, cheese products, and different spices;</p> <p>Creation on the farms for breeding goats of the feedings centers for the animals</p>	<p>Shortage of areas for pasture;</p> <p>Increase of the world prices for the feed</p>

POULTRY FARMING

Although the poultry breeders from ATU Gagauzia have produced enough meat and eggs to cover the internal consumption of the region, and even have exported their production on the internal and external markets, the results obtained by them were not satisfactory. During 2001-2007 the number of poultry farms reduced from 6 up to 2. The volume of meat has increased by 46.4%, and the quantity of eggs doubled, which was mainly due to the increase in the number of birds raised in the individual facilities of the population (Table 30).

Table 30 Dynamics of poultry farming production, 2001-2007

Repu Mold	Number of poultry far							
	Volume of meat, the tones							
	Volume of eggs, items							
ATU Gaga	Number of poultry far							
	Volume of meat, the tones							
	Volume of eggs, items							
ATU Gaga Repu Mold	Number of poultry far							
	Volume of meat, the tones							
	Volume of eggs, items							

Source: National Bureau of Statistics of the republic of Moldova and the Administration of Agricultural Sector of ATU Gagauzia

In general, the internal and external market conditions favor the process of growing birds on poultry farms. The prices for eggs increase, and in conditions of ATU Gagauzia, it is possible to produce them on rather small-scale farms, which can provide better conditions for birds growing. This will influence the quality of eggs, and as a result of this a higher price can be charged. The EU consumers, together with more and more internal consumers, prefer the fowl. In ATU Gagauzia it is worthwhile to create farms for growing ducks and geese for meat, since the consumers prefer the low-fat red meat and the liver of poultry. Besides this, there is an opportunity to use the local forage reserve.

SWOT Analysis 15 Poultry Farming

Strengths	Weaknesses
<p>Favorable internal and external conditions, which is caused by reduction of beef consumption in the European Union, and also in some geographical areas;</p> <p>Possibility to use the local forage resources</p>	<p>Absence in the region of a production potential for poultry farming;</p> <p>The poultry breeders have limited access to capital;</p> <p>Unsatisfactory level of forage per head compared to the production potential;</p> <p>Absence of an intense industrial system for growing poultry</p>
Opportunities	Threats
<p>Good prices for the production of eggs</p> <p>It is expedient to create farms for growing ducks and geese for meat, since consumers prefer the low-fat red meat and the liver of poultry</p>	<p>Tough competition on the regional market;</p> <p>Susceptibility of poultry for epidemic diseases</p>

CONCLUSIONS AND RECOMMENDATIONS FOR THE DEVELOPMENT OF THE LIVESTOCK BREEDING SECTOR

The revival of the livestock-breeding sector in the region requires, first of all, investments in modern farms. This process can be organized in such a way that gradually the animals and poultry would be transferred from the private facilities to much larger farms, which would be organized from the juridical point of view as associations of private producers, and would be located outside the populated area. Such a strategy will lead to an increase of the livestock, improvement of the productivity and efficiency levels, and last, but not the least, will diminish the negative effect of animal manure on the water condition in the wells situated in the populated area.

In order to guarantee a stable forage reserve, it is necessary to integrate the animal-breeding sector with the green forages cultivation sector. This will require the reduction of areas cultivated with wheat (which is almost entirely used by people as food) and the expansion of areas cultivated with corn and soy, which production can supplement and balance the food diet of pigs and poultry.

The sector of breeding sheep and goats in ATU Gagauzia has many comparative advantages; however, its revival is possible only under condition of maintaining the EU sanitary standards.

Application of intensive technologies in the breeding of cattle assumes a change of the diet structure. Thus, for the milk cows it is necessary to add in the food allowance green forages, silage, hay, grain-crops, oilcake, and root vegetables that would ensure about 20-25 liter of milk from one cow per day, which corresponds to the genetic potential level. As a rule, these requirements are not followed, cows often receive corn, wheat straws, and bran, and, as a result, cows yield about 10 liters of milk per day. For the cattle grown for meat the food allowance should consist of green forage, silage, root vegetables, qualitative hay, grain-crops, and oilcake. This combination allows an addition in weight of about 1000-1200 grams per day for each head of livestock, while the inclusion in the food allowance of corn, wheat and barley hay, bran, and oilcake allows an increase in weight of only 500-700 grams per day per head of livestock.

For feeding the pigs it is necessary to observe the maintenance of energy (mainly corn) and albumin (mainly oilcake and soy) base, in order to increase the value of the indicators. If the food allowance for pigs mainly consists of corn (90%) than the increase in weight will not exceed 450-700 grams per day per head of livestock, while the optimal diet will guarantee a 750 grams increase in the weight (70% corn and 25% soy oilcake).

It is expedient to create and equip adequately the regional laboratory for the analysis of milk composition and its safety for the population. Alongside it is necessary to create professional relations with foreign laboratories (Hungary, Netherlands).

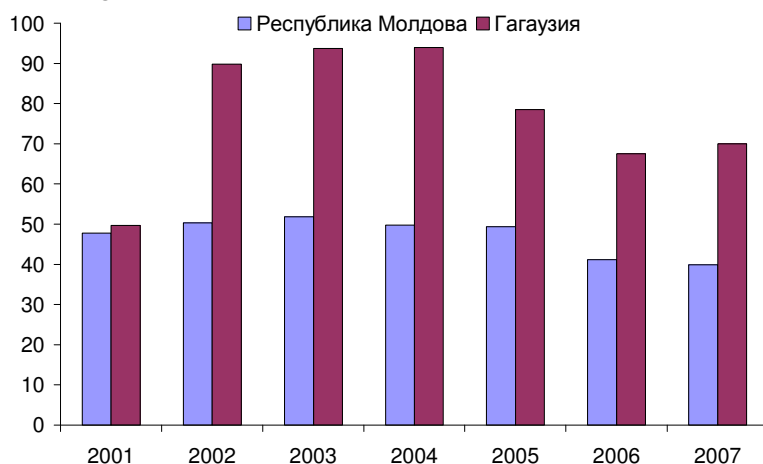
In ATU Gagauzia there are good conditions for beekeeping that is also encouraged by the increase in the EU aggregate consumption of honey and products of beekeeping. However, for the assimilation of regional advantages it is necessary to ensure a professional training of the beekeepers, about the EU legislation and EU standards on beekeeping. Besides this, it is needed to create a laboratory for the control and monitoring of the quality of beekeeping. In the beekeeping sector it is mandatory to implement modern "clean" technologies of growing bees, and exclusion of harmful methods (including the use of sugar as food for bees).

10. THE FOOD INDUSTRY

GENERAL DESCRIPTION OF THE FOOD INDUSTRY

The food industry plays an important role in the regional economy. Its level of development depends on the situation in other industrial branches, and especially on the development level of agriculture. The existence of industrial enterprises is justified mainly by the presence of the raw materials. Although currently the weight of the food-processing industry seems to be very high (Chart 23), this very fact proves the high potential of the industry and supports the opinion that this sector can serve as a catalyst for the whole economy.

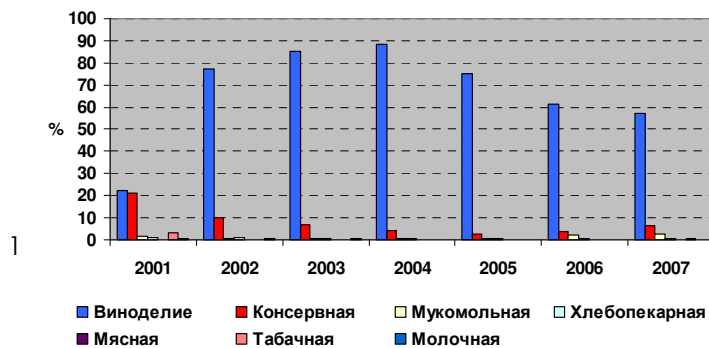
Figure 23 The share of food industry as a whole per industry sector, %



Source: Data prepared by "Expert-Grup" based on information from the National Bureau of Statistics of the Republic of Moldova and the Administration of Agricultural Sector and ecology of ATU Gagauzia

If in 2001 the share of the food industry in the total industry sector, was 2% higher in the region than the indicator per country, then in 2004 this sector became the dominant one in the industry (94%), or 1.88 time higher than the general indicator per country, and in 2006 it was 1.64 time higher the country indicator. For understanding the fluctuations of the given ratio it is necessary to analyze the dynamics and the structure of the food industry (Figure 24).

Figure 24 The weight of the food industry in the industry sector of ATU Gagauzia



Source: Administration of Agricultural Sector and ecology of ATU Gagauzia

The wine-making industry is the main branch of the food industry: its share has considerably changed during 2001-2007, and has significantly reduced after 2005. This happened due to the wine crisis because of the Russian Federation embargo on the import of wines from the Republic of Moldova. The second place is occupied by the canning industry. Its weight until 2005 has constantly decreased, and in 2007 it equaled 6.4% of the food industry. On the third place is the bakery industry, which after a continuous decrease until 2005, in 2007 equaled 2.6% of the aggregate industrial branch. The tobacco production has reached the maximum recession: 0.5% of the food industry in 2007. The production of bakery, meat, and milk has come to a full decline.

Winemaking

The development tendencies of the winemaking regional industry fully correspond with the national tendencies. Because of the "Pământ" reform, the winemaking plantations became smaller (up to 0.5 ha), which offers limited opportunities to apply the advanced industrial technologies. As a result of this, the production of grapes had experienced a slump that has negatively influenced the winemaking industry.

The transition to the market economy has determined the cancellation of the agreement with the former consumers from the foreign markets, and a serious decrease in the quality of wines produced in the region. As in other parts of the country, the wine makers from ATU Gagauzia have extremely slowly adapted to the new economic and business conditions. A very complex problem occurred after the wine crisis is the absence of strategy for winemaking companies to compete. Another problem concerns the difficulties of selling the production of the winemaking industry, especially because currently occurs a diversification of the production.

The most important companies of the winemaking sector are – JV "Tomai Vinex" Joint-Stock company, "Wines of Comrat" Joint-Stock company, and "Kazaiac-Vin" Joint-Stock company. They apply the vertical integration strategy, carrying out the production under the following scheme: raw materials – semi-finished products – finished goods – sale. Such a strategy allows to organize the production in a closed cycle with the use of own raw materials, and provides the listed companies with essential advantages in comparison with other competitors.

The dynamics of the winemaking industry production of alcoholic products for 2003-2007 shows that, although the volume of production has doubly reduced after 2005 (Table 31), its weight in the total amount of production per country has increased by 2.31 times (from 10.08% in 2003 to 23.3% in 2007).

Table 31 Production dynamic of alcoholic beverages in Republic of Moldova and ATU Gagauzia, th. dal

	2003	2004	2005	2006	2007
Republic of Moldova	3459	3529	383	190	14
ATU Gagauzia	3488	4404	77	39	33
ATU Gagauzia/Republic of Moldova, %	10.0	12.4	20	20	23

Source: National Bureau of Statistics of the Republic of Moldova, and the Statistics Department of ATU Gagauzia

The best of all developed the production of the natural grape wine. In the total amount produced in the Republic of Moldova the share of natural grape wine produced in ATU Gagauzia increased by 2.57 times: from 10.2% in 2003 up to 26.23 % in 2007. The percentage of strong-alcoholic wines was in the limit of 17-20 %, whereas the production of sparkling wines experienced serious fluctuations – from 10.2% in 2003 up to 5.35 % in 2007. The regional companies are not specialized in the production of strong-alcoholic beverages. In 2007 it was produced only cognac – 0.32 % from the total amount of production per country. The production of vodka has constantly decreased, constituting 0.46% from the total volume in the Republic of Moldova (Table 32).

The wine makers from ATU Gagauzia have both traditions, and experience in the field of winemaking, and the local raw materials is varied. The labor force is rather cheap and relatively qualified. In addition to this, probably because of these advantages, the wine makers from ATU Gagauzia have slowly adapted to the application of international quality standards, and the diversification of production and sale markets.

Table 32 Production dynamic of alcoholic beverages in Republic of Moldova and ATU Gagauzia, th. dal

	Type of production					
Repu Mold	Cognac					
	Vodka					
	Sparkling wines					
	Natural grape wines					
	Fortified wines (alcohol $\geq 15\%$)					
ATU Gag	Cognac					
	Vodka					
	Sparkling wines					
	Natural grape wines					

		Fortified wines (alcohol $\geq 15\%$)					
ATU Gagauzia Republic of Moldova %		Cognac					
		Vodka					
		Sparkling wines					
		Natural grape wines					
		Fortified wines (alcohol $\geq 15\%$)					

Source: National Bureau of Statistics of the Republic of Moldova, and the Statistics Department of ATU Gagauzia

SWOT Analysis 16 The industry of alcoholic beverages

Strengths	Weaknesses
<p>Traditions and experience;</p> <p>Existence of the local raw materials;</p> <p>Rather qualified labor force;</p> <p>Informational support rendered by local authorities for the economic development from the sector</p>	<p>The non uniform quality of raw materials</p> <p>Impossibility to insure the quality of the wine exported in containers;</p> <p>The policy on the approval of the composition, especially in regard to stamps and geographical indications</p> <p>The producers from ATU Gagauzia do not cooperate among themselves, do not cooperate with producers from other regions of the Republic of Moldova for a joint promotion of wines</p>
Opportunities	Threats
<p>Inclusion of the winemaking region of Gagauzia in the EU wine producing regions;</p> <p>Production of non-alcoholic beverages from wine: must (the juice obtained from the fresh grapes and sold during the winemaking period, also called grape wine), grape juices, must and juice concentrated products, fizzy juices,</p> <p>Advanced usage of the winemaking products (husks of grapes, the yeast in the food or pharmaceutical purposes)</p> <p>Creation of a branded image among</p>	<p>Growth on the international or domestic markets of the wine supply as a result of more competitors;</p> <p>The threat of falsification/substitution of the wine exported in containers;</p> <p>Increase of the technical standards and requirements for the target markets;</p> <p>Export restriction (export quota) on the markets where the producers from the region export their production</p>

internal and external consumers in to increase the demand	
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Juice and canned vegetable production

This sector has very good prospects for the region, but the low agricultural productivity leads to a disparity between the cost and the quality of fruits and vegetables, that is why the producers of juices cannot afford themselves to buy the raw materials for a high price. Furthermore, the development opportunities of the sector are not clear, because of the high expenditures for the creation of production capacities.

Analyzing the data from table 33, we can observe the absence of the production of canned vegetables and canned vegetables juices. The volume of canned fruits has also reduced during 2006 and 2007, although their share in the total volume of the Republic of Moldova was equal to 15% in 2007. The situation in the field of juices production is deplorable: it has decreased by 4.4 times, and its weight in the total volume per country has decreased 7.5 times (from 16.5% in 2002 to 2.2% in 2007). (SWOT Analysis 17)

Table 33 Production dynamics of canned fruits and vegetables and juices in Republic of Moldova and ATU Gagauzia, tons

	Type of product	2002	2003	2004	2005	2006	2007	2008
Republic of Moldova	Canned fruits							
	Canned vegetables							
	Juices							
ATU Gagauzia	Canned fruits							
	Canned vegetables							
	Juices							
ATU Gagauzia, Republic of Moldova	Canned fruits							
	Canned vegetables							
	Juices							

Source: National Bureau of Statistics of the Republic of Moldova, and the Statistics Department of ATU Gagauzia

SWOT Analysis 17 Production of juices, canned fruits, and vegetables

Strengths	Weaknesses
<p>Rather favorable soil and climatic conditions;</p> <p>Rather qualified labor force;</p>	<p>Low degree of understanding the market requirements;</p> <p>do not obey the EU quality standards;</p> <p>modern standards are needed by the processing companies in order to enter the market.</p>

<p>The support of local authorities in eliminating the problems that exist in the activity of companies</p>	<p>market;</p> <p>Low diversification of production;</p> <p>Difficulties in applying the technology in competition, because of high production costs;</p> <p>Difficulties in the field of internal and external market segmentation, creation of products for target categories of consumers: children food, invalid products for weight loss, products for athletes, etc.;</p> <p>The processing enterprises do not have the technological and organizational facilities for drying fruits and vegetables;</p> <p>The high turnover ratio of personnel between the companies</p>
Opportunities	Threats
<p>Escalating exports in EU as a result of the increasing interest of people towards a healthy diet and quality of life;</p> <p>The asymmetric trade regime with EU countries</p>	<p>The increase in supply on the internal and external markets, as a result of the increasing supply from the processing industries from other regions of the Republic of Moldova or countries or Ukraine;</p> <p>Curtailment of the production of agricultural raw materials, because producers fear a possible draught</p>

The flour-milling, baking, and pasta industry

The sector industry includes the grain milling, baking bread and bakery products, cookies, macaroni products, etc. The production of this sector provides the food basis for the regional population. Besides this, the by-products of the cereals technological processing are used as forages in the animal-breeding industries.

Analyzing the development of the sector during 2002-2007 (Table 34), it can be revealed insignificant fluctuations in the flour production – its growth, and then its reduction until the level of year 2002. Accordingly, the weight of the flour production in the total volume per country has increased by 2.21 times in 2004, and then decreased by 2.7 times in 2007. The production of bread reduced by 1.4 times, and consisted 0.35% of the aggregate volume in the Republic of Moldova. The production of pasta and bakery products was rather irregular, because of no specialization, and no steady growth of the sector.

The flour-milling, baking, and pasta industries experiences a deep crisis aggravated by the absence of a market strategy adjusted to the consumers form the region and nearby settlements. Another cause or this is the high cost of the raw materials as a result of the dry climatic conditions (SWOT Analysis 18).

Table 34 Production dynamics of flour, bread, and pasta, tones

	Type of production						
Rep of Mol	Flour						
	Bread						
	Pasta products						
	Bakery products						
ATU Gag	Flour						
	Bread						
	Pasta products						
	Bakery products						
ATU Gag / Re of Mol %	Flour						
	Bread						
	Pasta products						
	Bakery products						

Source: National Bureau of Statistics of the Republic of Moldova, and the Statistics Department of ATU Gagauzia

SWOT Analysis 18 Flour-grinding, bakery, and macaroni manufacture industry

Strengths	Weaknesses
<p>Traditions and experience in the sector</p> <p>Existence of local raw materials;</p> <p>Rather qualified labor force</p>	<p>Majority of the bakery products are in the private facilities of the population</p> <p>Low purchasing capacity;</p> <p>The bakeries lack a viable strategy regional market, and the market Republic of Moldova</p>
Opportunities	Threats

<p>Strengthening the integration between the flour-grinding and bakery industry with a great emphasis on improvement of the flour composition and accordingly, increasing the quality of bakery and flour products;</p> <p>Increasing consumer preferences for a varied range of products</p>	<p>Inability to meet the consumer requirements in regard to the range of products, and the quality of products;</p> <p>Difficulties to attract investments that are needed for meeting the quality and hygiene standards; these standards should be in accordance with the international norms;</p> <p>Complexities for the introduction of new standards in the process of producing bread;</p> <p>Increase of the competition level on the internal market</p>
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Conclusions and recommendations for the development of the food industry

It is necessary to develop the branches of the processing industry (production of vegetable oil, sugar, alcohol, canned vegetables, pasta, cheeses) together with the development of the agricultural activity. For example, only the primary processing of the sunflower seeds requires the existence of 5-6 small enterprises located near the traditional cultivation areas. Furthermore, for the vegetable processing it is necessary to create 2-3 enterprises.

Creation of an integrated network of products, or group of products that have a high level of processing. The expected results: provides stability for the sale of production, accelerates the specialization process that would stimulate the rational use of resources and the increase of economic benefits, increases the efficiency level in the technological and commercial field, favors the reduction of the production costs, allows to create an effective crediting system, increases the level of labor employment, concentrates the supply and optimizes the prices, provides a rational equipment level, develops contractual relationships.

Development by the winemaking companies of restructuring plans, including a plan for the development and adaptation of vineyards; effective criteria of priorities; monitoring and development of projects; recruiting managers in the field of marketing. For the expansion of exports to the European markets will be necessary to use the services of consultants in the field of winemaking, well familiar with the preferences and tastes of the European consumers, otherwise the commercial risk will be too high.

Segmentation of the wine supply according to the principle: one region = one product, which assumes a market segmentation, optimal management, maximal harvest from one hectare, and a policy of differentiated sources of income.

Stimulating the internal investments in the small and medium processing enterprises located in the countryside. Processing the foodstuffs is an ideal additional activity for the rural population, besides the agricultural activities, and these enterprises can be created with minimum efforts and investments. These enterprises will not only create incomes for the family of the entrepreneurs, but will also create workplaces in the regional area, which will favor the reduction of labor force involved in agricultural activities, and the industrial development of the countryside in general.

Increasing the competitiveness of the food industry by means of introducing new technologies, risks management, and promotion of smaller market transactions.

Stimulating investments for the monitoring of the quality of production (laboratory control), and the introduction of ISO standards that can also be implemented with the help of grants that will cover part of the expenses for the certification.

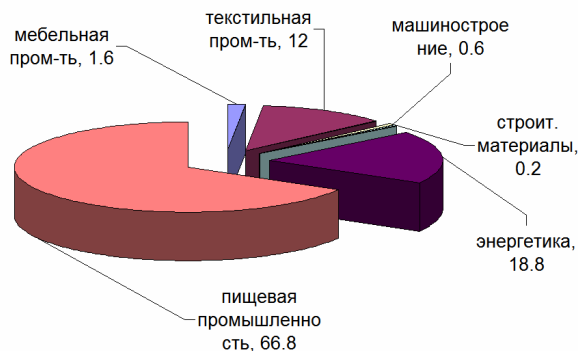
The food sector is attractive for the private businessmen, that is why it is worthwhile to create professional associations that would stimulate the private entrepreneurial activity, will represent the interest of entrepreneurs in relationships with the Government, and will be engaged in specific marketing activity.

11. Non-food industry

General development of the non-food industry

The non-food industry is quite poorly developed and concentrated in areas with a low added value. Nevertheless, for the last years the growth rate of this industry has been high enough. The non-food industry of ATU Gagauzia includes some sectors. The most important sectors are: electro- and thermo energy, gas and water supply, light industry (textile), furniture industry, mechanical engineering, and the manufacture of building materials. However, only the energetic and the textile industries have a significant percentage in the regional industry (Figure 25).

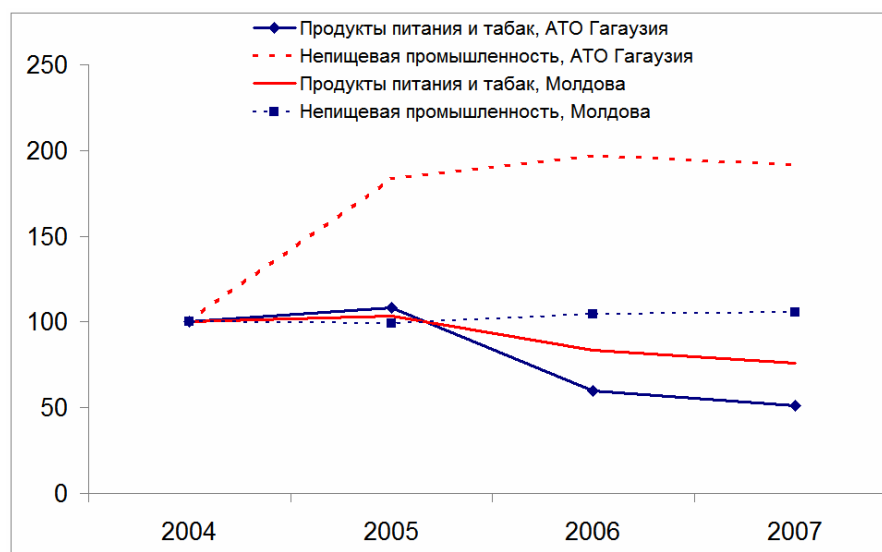
Figure 25 Gagauz industry structure, by branches, 2007, % from the total volume



Source: The Department of Statistics of ATU Gagauzia

In the last years, the non-food industry has started to increase its weight in the total industry sector of the region. However, this tendency is not so much explained by the increase of the non-food industry, as by the obvious recession of the agro industrial sector, and especially, the winemaking industry (Figure 26).

Figure 26 Comparable growths of non-food and food industries in ATU Gagauzia and Republic of Moldova during 2005-2007 (2004=100%)



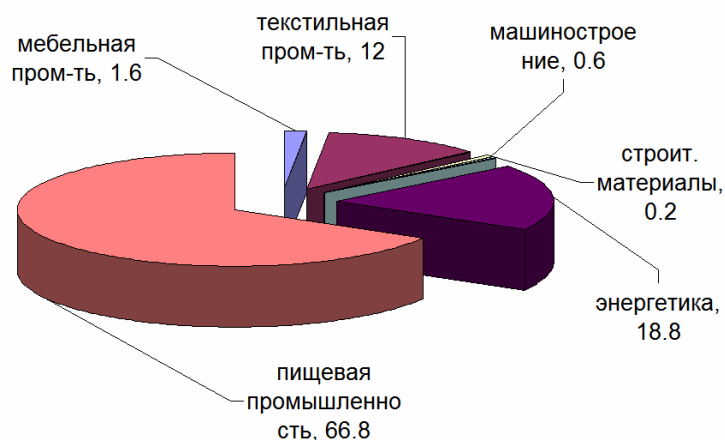
Source: Data prepared by "Expert-Grup" based on information from the National Bureau of Statistics of the Republic of Moldova and the Department of Statistics of ATU Gagauzia

11. NONFOOD INDUSTRY

GENERAL DEVELOPMENT OF THE NONFOOD INDUSTRY

The nonfood industry poorly developed and comprises low value added products. Nevertheless, during the last years the sectors registered high grow rates. The nonfood industry of Gagauzia comprises several sectors. The most important sectors are: electro- and thermo-energy, gas and water supply, light industry (textile), furniture industry, machine building and the production of construction materials. Still, only the energy and the textile industry have a significant aggregate share in the region's industry (Figure 19).

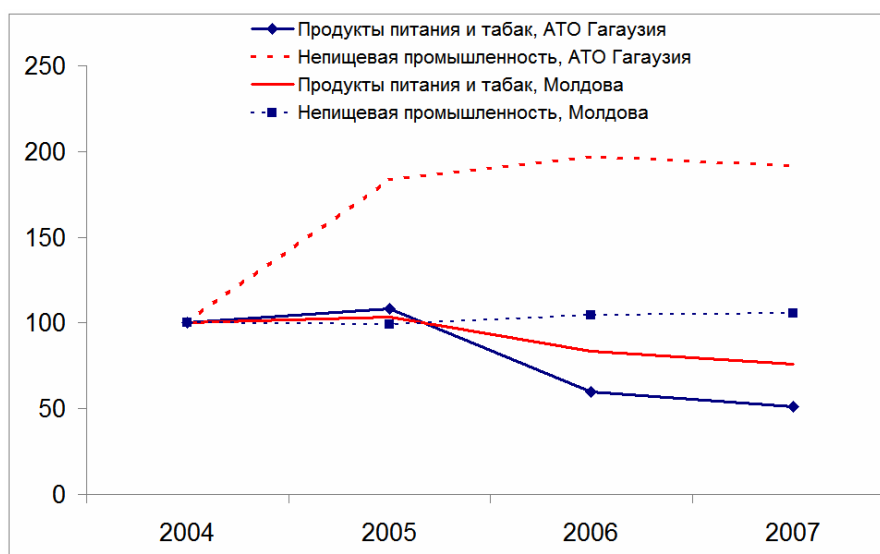
Figure 19 Industry structure of ATU Gagauzia by sectors, 2007, % of total volume



Source: ATU Gagauzia department of statistics

In the last years there was a significant increase of the aggregate share of the nonfood industry in the general structure of the region's industry. This is explained not only by growing nonfood industry, but also by shrinking agricultural output, especially of the winemaking industry (Figure 20).

Figure 20 Comparable growth of non-food and food industries in ATU Gagauzia and Republic of Moldova during 2005-2007 years (2004=100%)



Sources: Expert-Grup calculations based on the data from the Republic of Moldova's National Bureau of Statistics and ATU Gagauzia Department of statistics

TEXTILE INDUSTRY

Among all industry sectors, textile sector was developing rapidly during the last years. Even if in 2007, compared to 2006, the growth rate was 4,3%, there is a slight decline in growth rate: in 2006 the production went up by 14,7% compared to 2005. Overall, there are currently 5 companies in Gagauzia: 2 with foreign capital, 2 joint stock companies with private capital and 1 company with mixed capital.

The textile industry accounts for largest share of the nonfood export from Gagauzia. In 2007 the textile output was 5,55% from the general volume of exports. Its aggregate share in exports has increased in the last 3 years (the fastest growth was registered in 2002 and 2003) due to shrinking agricultural output and slashing exports of alcoholic beverages.

All the textile companies have certain similarities. Companies manufacture goods on commission and export all their production through their foreign partners. Therefore companies do not have to worry about marketing the output. Companies of this type, are established with financial support of the foreign investors, which is why they do not have any relationships with the local financial institutions. Meanwhile, their income is limited, as a significant share of the added value is owned by the foreign companies that have concluded contracts with Gagauzian enterprises.

Nevertheless, these companies are united by common risks: the high turnover rate of employees (see below) and the need to secure non-stop supply of raw materials from abroad. If this risk persists, this may slice production capacities in the region. This is a weak point of the sector which limits company contribution to economic growth on a medium and long term perspective.

The salary remains the key factor in the textile sector, as the cost of the labor force, remains for Gagauzia, a very important factor for attracting investments in this sector. Thus, the labor force remains among one of the most vulnerable points of the sector, while low remuneration increases labor turnover. In 2006 employee turnover was 50,2% versus 46,4% in 2005. In other words, for each 100 new employees in textile companies, 73 people were fired. The main reason for this is small salaries. The average salary in the sector is 1081 MDL: from 783 MDL to 1420 MDL (depending on the company). Consequently, the highest fluctuation rates were in companies with the lowest salaries.

Indeed, companies in this sector compete not only with the local companies, but with a significant part of enterprises from the South-Eastern Asia, especially with the Chinese ones. The advantage of the local companies is the proximity to the European markets (where majority of investors, suppliers of raw materials come from), a relatively high quality of production and a relatively cheap labor force. Growing remuneration will decrease the international competitiveness of the Moldovan companies. The local education institutions do not train specialists for the nonfood industry that is why majority of the companies are forced to train independently their employees.

SWOT Analysis 5 Textile industry

Strengths	Weaknesses
<p>Cheap and relatively qualified labor (temporary advantage);</p> <p>Favorable geographic position accessing European markets;</p> <p>Access to raw materials and supply networks through partner companies;</p> <p>Access to the necessary energy resources;</p>	<p>Bad roads;</p> <p>Manufacture goods on commission value added products made in Gagauzia;</p> <p>Low salary and high labor turnover</p>
Opportunities	Threats
<p>Increasing value added by developing local R&D, which will permit to increase the salary;</p> <p>The recovering and the development of the transportation infrastructure;</p> <p>The development of centers for preparing specialists</p>	<p>Emigrating labor force;</p> <p>Breaks in raw materials deliveries;</p> <p>Relocating production facilities to countries with a abundant cheaper labor force</p>

FURNITURE INDUSTRY

The furniture industry is represented by 4 companies in the region. One of them, Galia Vita Ltd. has a significant role in this sector. In 2007 sector registered a negative growth rate: -14,6%. The reason is growing competition from the Ukrainian companies (whose

production is cheaper, even if it is less qualitative) and 6 month stagnation of Davilant Ltd. in 2007. The negative growth had an impact on number of employees: in 2007 the number of employees decreased even in the leading company.

The evolution in the sector is different for each enterprise. These enterprises sell their production not only in Gagauzia, but also in other regions of the Republic of Moldova. Unlike the textile sector, this industry faces the problem of capital investments. Export of the finished goods is more difficult as companies do not have international quality certificates.

Lack of qualified labor remains the key issue in this sector. Consulting services is another factor which determines company development. The regulation framework can be overall described as favorable for the industry.

SWOT Analysis 6 Furniture industry

Strengths	Weaknesses
<p>Cheap and qualified labor force;</p> <p>Favorable geographic position accessing European markets;</p> <p>Access to raw materials and to supply networks through the partner-companies;</p> <p>Access to the necessary energy resources.</p>	<p>Bad roads;</p> <p>No international quality certificates;</p> <p>Limited access to the capital resources;</p> <p>Lack of consulting services for the business sector.</p>
Opportunities	Threats
<p>Implementing international standards for penetrating European markets;</p> <p>Developing of the transport infrastructure;</p> <p>Establishing centers to training specialists.</p>	<p>Labor force emigration;</p> <p>Competition with foreign companies provide cheaper products;</p> <p>Non-explored export opportunities.</p>

CONSTRUCTION MATERIALS INDUSTRY

JSC Betacon is the only big producer of construction materials in ATU Gagauzia. The growth rate of the sector in 2007 was 4 times the size in 2006. However, the number of employees did not change. The company sells 70% of its output locally, and the remaining in the rest of the c.

Labor (qualified and low skilled), capital and energy resources, play the key role in industry development. Apparently the company has sufficient access to these

resources. The construction boom in the country provides the necessary opportunities for developing the sector.

SWOT Analysis 7 Construction materials industry

Strengths	Weaknesses
<p>Cheap and qualified labor force;</p> <p>Favorable geographic position accessing the European market main transportation means;</p> <p>Access to necessary energy resources</p>	<p>Bad roads;</p> <p>No international quality standards applied;</p> <p>Limited access to the capital resources</p>
Opportunities	Threats
<p>Growing demand for construction materials in the region and in the country generated by construction boom;</p> <p>Implementing international standards for increasing export;</p> <p>Improving the road infrastructure;</p> <p>Specializing on niches that are occupied by foreign competitors; important local companies;</p> <p>Cooperating with local construction companies</p>	<p>Emigration of the local labor force;</p> <p>Non-development of the opportunities;</p> <p>Growth in price of the energy resources used in production.</p>

MACHINE BUILDING

There are two companies which build machines in the region: JSC ZETO and Brenus-grup Ltd. The sector grew by 13,4% in 2007. In 2008 the situation is uncertain because JSC ZETO stagnated. There will be a positive change when «Технический центр» JSC starts operating. It delivers services for land farming and repairing equipment. Potentially it may become possible in 2008 to assemble tractors under the Haricov tractor factory license. Brenus-grup Ltd. and «Технический центр» JSC managers have positive expectations for. They expect their companies to grow by increasing the staff, investment in new technologies and geographic extension of their business.

In 2007, Brenus-grup Ltd. and «Технический центр» JSC employed 95 people. Company managers expect that the number employees will increase to 127 people in 2008. Qualified labor and staff turnover are key issues for companies to cope with.

These companies share similar weak points as other industrial enterprises: access to capital and energy resources, telecommunication, roads and consulting services.

Brenus-grup ltd is the leading company by export volumes. It is a subcontractor of an Italian company and produces accessories supplied to Russia, Romania, Ukraine and Italy.

SWOT Analysis 8 Machine building

Strengths	Weaknesses
<p>Cheap labor force;</p> <p>Favorable geographic position accessing the European market main transportation means;</p> <p>Access to energy resources;</p> <p>Well-developed relationships with partners</p>	<p>Lack of qualified labor;</p> <p>Bad roads;</p> <p>Difficult access to the capital resources;</p> <p>Weak development of consulting services</p>
Opportunities	Threats
<p>Growing demand, especially in agriculture;</p> <p>Improving the transport infrastructure</p>	<p>Emigrating labor force;</p> <p>Growing prices for energy resources in production.</p>

TOBACCO FERMENTATION

Production in this sector was continuously decreasing due to systematical crisis of the industry in the region and in the country. In 2007 the sector was represented by a single company. The data (Table 20) displays the falling production volumes—2,33 times less than in 2002. The share of this sector in country total fluctuated in 2002-2007 (from 10,4% in 2002 to 13,1% in 2007).

Table 20 Dynamics of tobacco production, during 2002-2007, tons

	2002	2003	2004	2005	2006	2007
Republic of Moldova						
ATU Gagauzia						
ATU Gagauzia / Republic of Moldova, %						

Sources: calculations made using the data of the National Bureau of Statistics of the Republic of Moldova and the Administration of Agricultural Sector and ecology of ATU Gagauzia

SWOT Analysis 9 Tobacco fermentation industry

Strengths	Weaknesses
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<p>Traditions in tobacco processing;</p> <p>The existence of the national and regional product markets;</p> <p>Possibility of using low-qualified labor;</p> <p>Subsidies from the state and regional administration</p>	<p>Lack of interest to develop the sector;</p> <p>Interdiction to employ teenagers and pregnant women in tobacco processing;</p> <p>Convention about tobacco;</p> <p>Limited access to the capital</p>
Opportunities	Threats
<p>Selling seeds, seedlings, tobacco non-fermented and fermented tobacco</p> <p>Using effectively the experience in cultivating and processing tobacco</p>	<p>Non-compliance with the rules of industrial tobacco processing;</p> <p>Risk of losing the invested capital;</p> <p>High competition in the sector;</p> <p>Health damages.</p>

CONCLUSIONS AND RECOMMENDATIONS FOR THE DEVELOPMENT OF THE NONFOOD INDUSTRY

- Even if the sectors of the nonfood industry are different, they all can face a common problem in the near future: lack or deficit of qualified labor. The main reason behind this is low remuneration from the last years and respectively, high labor migration from Gagauzia. Salaries are competitive only in the energy sector (3142,5 MDL versus 1818 MDL). The salary can increase if companies become more competitive and labor more efficient.
- The general recommendation is related with the threat that is common for all the sectors: deficit of qualified labor force. This situation is caused by two factors: the migration of the labor force and the inadequate education offered to technical specialties. Thus, education has to be improved at the Comrat state university and other professional institutions as well as develop informal education opportunities. Another recommendation at the general level is establishing a better collaboration between the companies from Gagauzia and educational institutions.
- The current competitive advantages, of growing textile industry, will not last for long. It will be more difficult to pay higher salaries and retain cheap labor. Also, there can be disruptions in raw material supply, which depends significantly on the partner-companies. Companies should establish their own R&D to develop further at a constant rate and delivery high value added products. Increasing income can improve remuneration, increase the number of employees (especially work places that require a high qualification). The companies should consider introduction in Gagauzia of the value-chain (design-production-sale) and conclude long term contracts with raw materials suppliers.

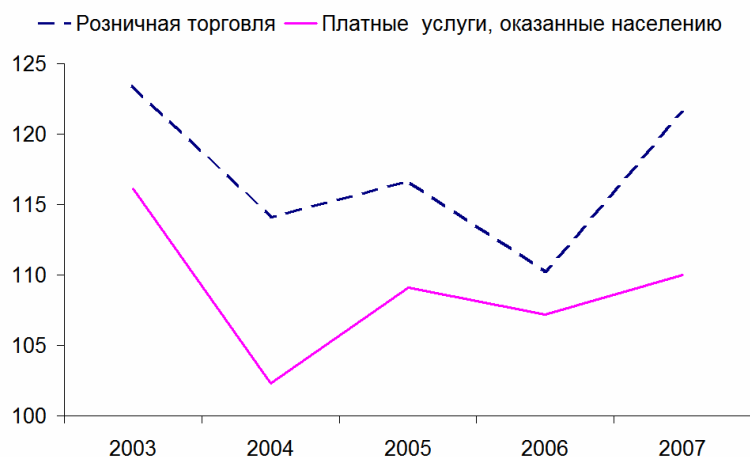
- The most important factor for developing the furniture industry is the access to foreign markets and increasing production. Taking this into consideration, international quality standards can be an important obstacle. The faster companies adopt these standards, the faster they will be able to export on EU market, establish long term business relationships with foreign clients. These measures would offer the possibility to secure certain stability, create more trustful relationships with suppliers of raw materials. With international quality standards, Gagauzian companies will handle easier the competition with Ukrainian companies. Regional authorities should undertake projects to inform and consult local companies on ways to produce. Local companies and regional authorities should joint forces to plan business trips to countries of interest for furniture supply. Design and innovative marketing opportunities should be developed, in order to enter new niches on the market.
- Production of building materials can increase proportionally with growing construction industry. Construction boom will create new enterprises to appear on this market. Taking into consideration the competition on this market, it would be reasonable to establish collaborations with local construction companies. As prices for real estate will be going up in Gagauzia, financial companies may consider matching these market opportunities for developing mortgage or other services.

12. SERVICES AND TRADE

THE SECTOR STRUCTURE AND ACHIEVEMENTS

Similar to the rest of the country, the service industry has been growing during the past years. Even though it was not a uniform growth, it is mainly due to increasing consumption trends of population. In 2007, retail trade and services in Gagauzia grew faster than national average, which is the highest result since 2003 (Figure 21). Taking into consideration the results of the companies' survey from ATU Gagauzia, trade registers highest growth rate in the sector, while services provided to population and transportation services are on the 4th and 5th places consequently.

Figure 21 Dynamics of retail sales and services provided to population in ATU Gagauzia, %, previous year = 100%



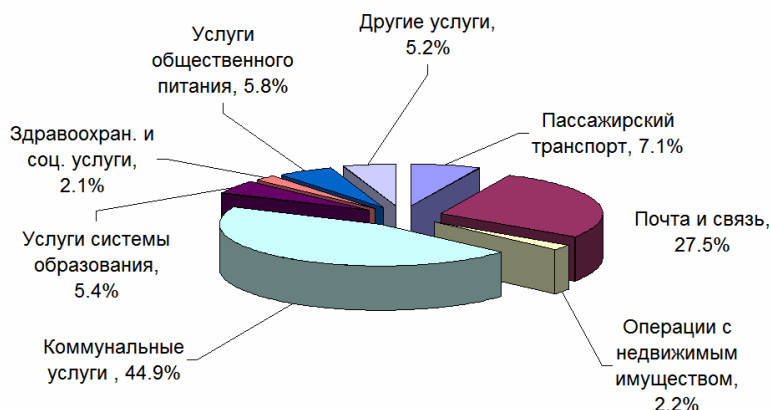
Source: National bureau of Statistics from the Republic of Moldova

In 2007 retail trade grew due to increased sales of non food items (30%). During the last 2 years, major distributors of home appliances opened their shops in Gagauzia. This data however reflects performance of the organized trade of economy. According to the Law of Gagauzia on entrepreneurial patent, retail trade done over the counter, in the street, with an area less than 12 m², can take place with an entrepreneurial patent. There were 1797 trade patent holders in 2007. Population preferences change however, as shopping centers start appearing. In addition the sales volumes in the over-the-counter street sales are decreasing, which explains the reducing number of patent holds during the last years. Consumer preferences determined also decreasing grey sales without administrative intervention. There are still agricultural markets, but the network of shops/supermarkets is not sufficiently developed compared to the number of population and situation in other regions of the country.

Dynamics of paid services provided to population was not uniform, as its structure is different from the one of the Republic of Moldova. The large share of utility services in

the general volume of services provided to the population is determined by low population incomes and weak market services. Utility services hold 45% from the total volume of (Error! Reference source not found.) against 25% - the country's average. Education, health care and social assistance services account for 7,5%. Despite the fact that private education and medical services have been growing faster during the last years than state services, this market still holds potential for development. The absence or insufficient foreign language courses, dental clinics and other types of medical services create the opportunity to develop quickly this sector.

Figure 22 Structure of paid services provided to population in ATU Gagauzia in 2007, % from total volume



Source: ATU Gagauzia Department of statistics

The second place by volume of services provided to population are postal and telecommunication services – 27,5%. There is also insignificant share of private capital in this area. Competition is absent in sectors where private companies can activate. For example, there is only one internet provider in ATU Gagauzia– Moldtelecom JSC. On the other hand, the volume of services with higher profits: real estate transactions, tourism agencies, legal and financial services are also insignificant.

Services provided to population account only for 0,6% of all the paid services for population. This share has not changed during the last years. It has to be mentioned that these are services provided only by registered economic agents. Additionally, population services are provided using entrepreneurship patent. In the formal sector, growth is driven by renting machines and equipment, home appliances and personal use objects, transport services. There are few companies which provide services to population and they are randomly scattered across the region. Therefore, 19,7% of services are provided in Comrat district; 78,5% - in Ciadir-Lunga and 1,8% in Vulcanesti district. In 2007 there were 183 patent holders with the right to provide services to the population. The small number of patents issued for well-demanded activities (home appliance repairs) gives insight that these services are provided without patents.

Overall, the existent population services do not meet the demand. In separate communities these services are completely absent. There is one single photo studio registered in the entire ATU Gagauzia, and a number of services are absent: taxi, security services, cleaning. These services develop successfully in other regions of the country. Overall quality of services provided to population is low and consumer rights are not protected.

The increase of passengers and cargo transportation (Table 21) is due to 13 companies specialized in transportation services and 8 cargo companies. Several companies practice cargo transportation additionally to their main activity. In 2007, 330 people hold entrepreneurship patent for cargo and passenger transportation services.

Transportation of passengers is done inter-cities, villages and district centers. International routes are limited to transportations to Ukraine, Bulgaria and Turkey, while their schedule depends on the number of passengers willing to travel to a certain destination. Usually, transpiration on these routes is seasonal. There's urban transportation in Comrat and Ciadir-Lunga and none in Vulcanesti.

Some business supporting services are underdeveloped or absent In Gagauzia: business consulting, technical consulting, advertising, accounting services, business partnerships. Even though their number is increased insignificantly grown, the share of these services is still very small. Several times these tasks are performed by NGOs and other entities which are not but supported by external donors. These services however are not market adjusted and differ from company expectations in terms of quality.

Table 21 Cargo and passenger transportation in ATU Gagauzia

	Cargo transportation		Passenger transportation by and minibuses	
	Thousands	Thousands km	Thousands passengers	Thousands passengers
2004	147,8	6981,8	512	18049,1
2005	114,8	7274,6	689	20516,3
2006	6,5 ¹⁸	5999,1	746,6	24895,9
2007	20,5	14910,9	743,3	24720,8
2008	37,5	31097,6	866,3	26164,1

Source: ATU Gagauzia department of statistics

The regional administration treats tourism as a priority branch for diversifying the economy. There are limited short term perspectives for developing tourism industry in

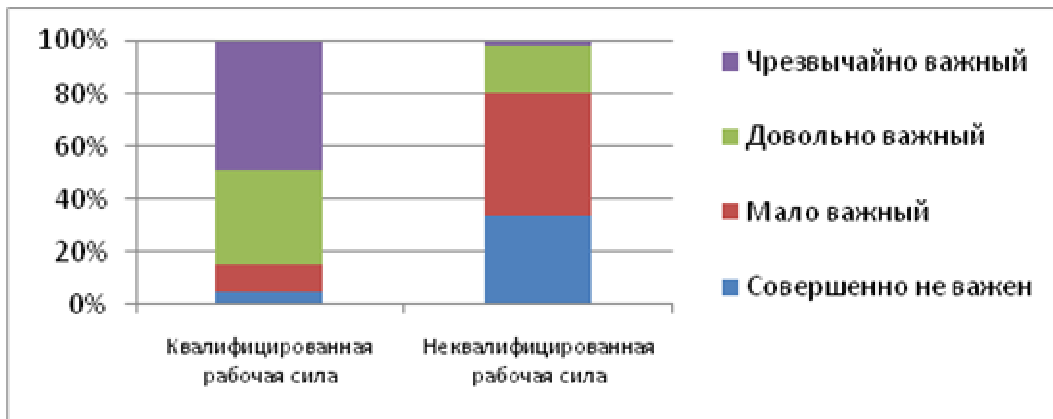
¹⁸ The fast slump of the transportation volumes in 2005 is explained by the change of the main activity direction of one of the companies, which since 2005 has not provide any data about cargo transportation.

ATU Gagauzia. Taking into consideration existent resources, tourism development is possible in the context of the national and international networks (Ukraine and Romania). The large number of wineries and vineyards provide conditions for establishing a wine route which would reflect different stages of wine production. This route can be developed at a regional and national level. Regardless of the niche regional administration and companies will select (ecology, rustic life, horse riding or winemaking), tourism development will require at least having basic infrastructure (roads, accommodation and service facilities).

LABOR FORCE

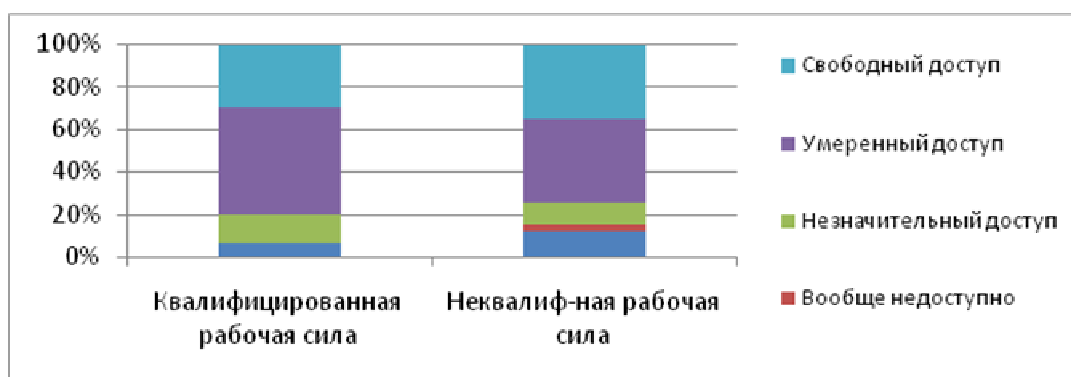
Over one third of population (35%) of Gagauzia works in the service and retail trade sectors. The main share of population is involved in education and health care services. Even if this sector has the highest growth rate in the economy, there was shrinking number of employees during the last years in companies with less than 20 workers. Qualified labor is important for the future development of this sector (Figure 23). Lack of skilled labor is critical for this sector as well. 11,2% of entrepreneurs consider this to be a challenging obstacle for the sector (Figure 24).

Figure 23 Distribution of answers to question «How important is for your company to have qualified and non-qualified labor?»



Source: ATU Gagauzia companies survey

Figure 24 Distribution of answers to question «How easy is access to qualified and non-qualified labor is in your company?»

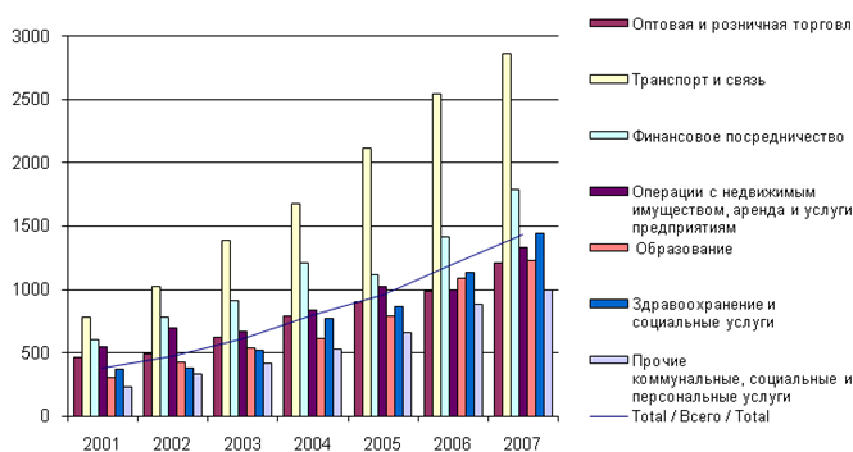


Source: ATU Gagauzia companies survey

The reason for insufficient labor resources are inadequate trainings and small salaries (Figure 25). The average monthly salary in the trade is less than the regional average. Monthly salaries in the energy and financial sector are above the regional average. However these sectors employ less than 1000 people.

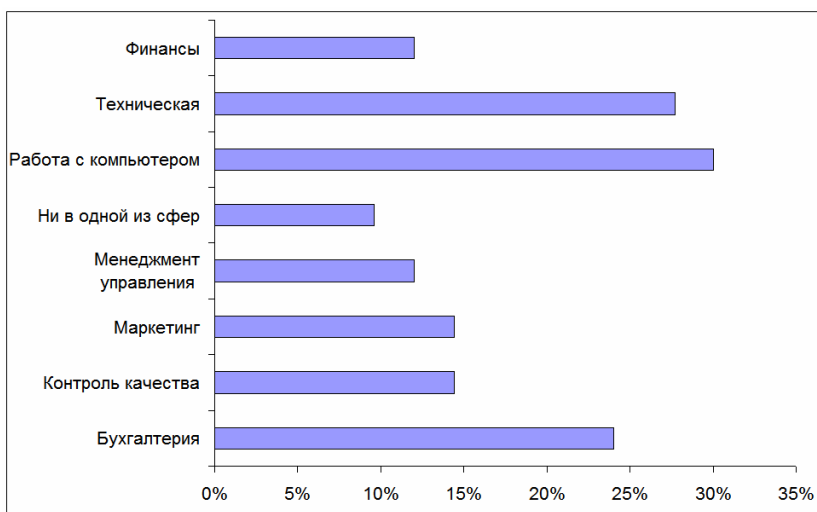
Computer use is one of the most important aspects where additional education is required (**Error! Reference source not found.**). In trade, it is necessary to have a technical, accounting or marketing background. Companies usually train staff on their own to sell consumer appliances, computers. As there are few companies of this type, the number of employees is rather small. Even though quality control and management are important subjects, there is little training which cultivates this knowledge.

Figure 25 Average monthly payment in trade and service sector in ATU Gagauzia, 2007, MDL



Source: ATU Gagauzia department of statistics

Chart 32: Distribution of answers to the question "In what specific areas do workers require additional training?"



Source: Survey of companies from ATU Gagauzia

Another problem, especially in the field of customer service, is the quality of services, which is not controlled, and usually does not correspond to the level required by consumers. The absence in this area of the qualified labor force and the low quality of services are the result of an inefficient system of higher education in the Republic of Moldova in general, and in ATU Gagauzia in particular.

OBSTACLES ON THE WAY OF DEVELOPING THE SERVICES SECTOR

For trade and services sectors, it is characteristic relatively insignificant investments as compared to other sectors, and a fast payback period of the invested means. Nevertheless, 18 % of the respondents mentioned the absence of capital investments as one of the obstacles in the way of developing the business environment. The limited access to capital is also caused by the difficulties met by small and medium companies when applying to credits from commercial banks. Furthermore, the private entrepreneurs who do not present financial reports face even more impediments when trying to get credits from the banks.

The Law on entrepreneur's patent and the Law on fixed taxation stipulate a simplified system of activating in the field of trade and customer service. The Law on fixed taxation establishes a simplified system of financial reporting not only for the sphere of retail trade, but also for the activity in the sphere of public catering, activity of the currency exchange desks, and computer rooms.

The associations of entrepreneurs in the sphere of trade and transportation are the largest ones in the region, however, their role in promoting the business is rather limited, which is caused by the absence of qualified human resources and a precise development strategy.

Another problem, which also influences the services sector, is the active emigration from the region that determines a low number of the population. The lack of a bigger market is one of the main barriers for developing the business for 24 % of the companies, 18% of whom consider the process of migration as determinant for the

absence of buyers. In addition to this, the low level of incomes in the region supports the weak demand and the peculiar structure of paid services rendered to the population, the majority of which consist of public utilities. Despite of this, some of the services remain weakly developed and are non-uniformly distributed in the region. Their more rational distribution from the point of view of location, but also of the spectrum of offered services, can promote the development of a high demand from the consumers.

RECOMMENDATIONS FOR THE DEVELOPMENT OF THE SERVICE SECTOR

- The services sector in ATU Gagauzia is characterized by a fast growth rate, a change in consumers' preferences, and a low competition level, or its full absence in some areas (SWOT Analysis 24). Some of the listed features serve as favorable preconditions for the diversification of the spectrum of rendered services, whereas other, on the contrary, slows down the development of the sector. To the authorities of ATU Gagauzia can be given the following recommendation of general character: to stimulate competition in all branches of the sector, inclusively in those branches in which, at the regional level, the public bodies or enterprises prevail (education, public health services, Internet).

Strengths	Weaknesses
Significant and steady growth of the services and trade sectors	The limited consumer market because of the active migration of the population
The short payback period of the investments in the sector of consumer service	The average income per capita is below the average indicator per country
	Unattractive wages in the sphere of trade and services in the public sector
	Difficult access for the SME to credit
	Limited access to business-consulting services
	Poor quality of roads and an inadequate infrastructure of stations obstructs development of passenger transportation
	The insufficient network of public transportation in the towns, and the undeveloped network of public transportation between villages and centers of districts

	The low quality of services rendered population, the inadequate control these services, or even its full absence
Opportunities	Threats
<p>Opportunities of opening businesses in fields where there is no or insignificant competition; there are no organized services, security services, dry-clean cleaning services</p> <p>Expansion of supermarkets' network</p> <p>Establishing the activity in the field of training for the consumer service</p> <p>Opening courses for studying foreign languages as a result of an increased demand for the educational services</p> <p>Creation of a tourist route including the main wineries. Expansion of services rendered to economic agents</p>	<p>The legislative instability</p> <p>The continuous migration of the bodied population</p> <p>Increase of tariffs for telecommunication, municipal, transport services</p> <p>The inability of the sector to adjust varying preferences of the consumers</p>

- In the long term, the consulting services will play a crucial role in the development of the services sector and the regional economy as a whole. At the same time, it is obvious that consulting should be developed in the private sector, whereas in the bodies of the Executive committee and local authorities it is reasonable to develop divisions that would be responsible for informing the economic agents, thus eliminating all the obstacles in the work with local and regional authorities. In both cases, it is necessary to involve highly skilled experts.
- It is expedient to organize specialized training courses depending on the level of skill of workers in the sphere of services and trade, and in the areas in which they require additional training. Courses on how to work on a computer, and courses of bookkeeping can enjoy a great popularity. In the short-run, some of these courses can be organized by the nongovernmental organizations and local authorities, and other – by private economic agents.
- Guaranteeing in each settlement the minimal set of services for the population, encouraging for this purpose the opening of supplying companies, guaranteeing the necessary premises, offering information.
- Opening private courses for studying foreign languages and the Romanian language in order to meet the growing demand for the educational services.

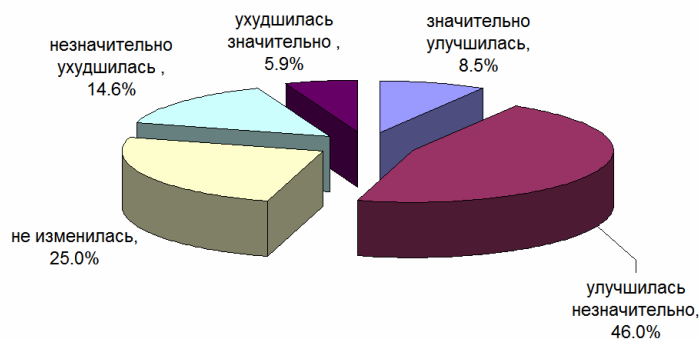
- Creating a tourist route on wineries from the region, including it in the National Way of Wine; opening tasting rooms and buildings for the accommodation of tourists.
- Creation of an improved system of gathering statistical data from the regional economic agents, and ensuring the circulation of this data between specialized bodies.

13. THE BUSINESS ENVIRONMENT

GENERAL PROVISIONS

A business environment is defined as all legislative acts regulating the entrepreneurial activity, and the order in which the regulating process takes place, including the non-official obstacles, how fast the adopted laws are being implemented, and the relations between the state bodies and economic agents. The normative framework regulating the activity of economic agents in ATU Gagauzia does not substantially differ from the legislative framework of the country. For the last three years, due to the regularization reform, have occurred changes that have improved the business environment. The sociological survey, in which have taken part 124 economic agents from ATU Gagauzia, has revealed that over 50 % of respondents noticed an improvement in the business environment for the last 4 years (Figure 33). This estimation is higher than the one per country, where in 2005-2007 21-25% of respondents regarded as positive the change in the business environment¹⁹¹.

Figure 33 The change of the business environment from the point of view of economic agents from ATU Gagauzia



Source: Survey of companies from ATU Gagauzia

¹⁹ The cost of state regulation on enterprise activity, Chisinau, 2007

The laws that have recently come into force have a big importance, especially the way in which they will be implemented. It can be mentioned the following laws – the law on book keeping²⁰, which simplifies the procedure of financial reporting and reduces the frequency of presenting the financial reports from once per quarter to twice per year, or even once per year; the law on limited responsibility companies²¹, and the modifications in the law on joint stock companies²²; modifications in the law on financial insolvency²³, according to which the proceedings related to insolvency will be solved only in court. After creating “one-stop-shop” system, the procedures and the terms of reception of licenses and authorizations on the registration of businesses have become simpler. However, it does not operate in strict conformity with the principles of the “one-stop-shop” system: entrepreneurs register themselves separately in the Bureau of Statistics and in the Regional Tax Service. This occurs because there is no yet an information exchange between the Bureau of Statistics, The State Registration Chamber, and the Tax Service. It is necessary to ensure the information exchange between the mentioned bodies, also for a good functioning of the law on state registration of legal entities and individual entrepreneurs²⁴. This law has recently come into force, and simplifies the process of registration and exclusion from the state register, due to a reduced number of procedures and number of required documents, and the possibility of submitting the registration documents in the electronic form.

The procedure of liquidation of enterprises is even longer and more expensive. Currently, there are 6696 economic agents registered in ATU Gagauzia, of them 4491 are active. Many private enterprises, in order to avoid penalties, at the end of the reporting year, present a declaration of zero income, preferring this procedure to the formalities connected with the liquidation of the enterprise. In this respect, the law on state registration of legal entities and individual entrepreneurs will contribute to a simplified procedure by reducing the number of required documents for the exclusion from the state register, but only if the necessary conditions for its implementation will be assured, including the information exchange between the State Tax Service and the State Registration Chamber.

In ATU Gagauzia, controls seem to be a normal aspect of mutual relations between the authorities and the private sector. In 2007, controls, on average, took place 10.2 times per year in the joint stock companies and limited liability companies included in the survey. More often with controls came the Sanitary-and-epidemiologic inspection, the State Tax Service, and police (Table 37). The frequent controls of companies by the police are worrisome, since this body is not authorized to undertake regular controls of the economic agents. This fact might be a proof that the authorities try to

²⁰ The Law on book keeping nr. 113, from 04.27.2007

²¹ The law on limited responsibility companies nr.135, from 06.14.2007

²² The law on Joint Stock Companies nr. 134, from 04.02.1997

²³ The law on financial insolvency nr. 632, from 11.15.2001

²⁴ The law on state registration of legal entities and individual entrepreneurs, nr. 220 from 10.19.2007

intimidate certain economic agents. This hypothesis is also confirmed by the results of the surveys, undertaken in the region with anonymous companies.

Table 37 The average number and the average duration of controls undertaken by the state bodies over the economic agents (legal persons), 2007

	ATU Gagauzia, 2007		The Republic of Moldova, 2006	
	The average number of controls	The average duration of controls (days)	The average number of controls	The average duration of controls (days)
State Service	1.87	4.17	2.1	4.7
Fire Service	1.43	1.18	1.6	1.1
Sanitary epidemiological inspection	2.35	1.2	2.5	1.0
Police	1.64	1.41	1.5	1.2
Service standardization and metrology	0.61	1.04	1.1	1.5
Ecological inspection	0.84	1.19	1.6	1.0
Center for Combating Economic Crimes and Corruption	0.61	1.04	1.5	1.2
Work Inspection	1.23	1.33	1.3	1.2
National Insurance	0.45	1.13	-	-

Source: Survey of companies from ATU Gagauzia, and «Republic of Moldova: cost of state regulation on enterprise activity»

For all the regulatory requirements, the companies from ATU Gagauzia have spent almost 7.6 % of their working time. For the comparison, in the Republic of Moldova this indicator was equal to 158 % in 2006.

Legislation

Besides the national legislation, the economic agents from ATU Gagauzia should also respect a number of regional laws, part of which are important for the stimulation and simplification of the activity of small entrepreneurs. One of these laws is the Law on

the entrepreneurial patent, adopted in 2006 as a result that the Republic of Moldova introduced modifications to the Law on the entrepreneurial patent, prohibiting some activities on the basis of entrepreneurial patent, for example the retail trade. According to the legislation of ATU Gagauzia, it is possible to carry out 68 activities based on entrepreneurial patent, including the retail trade, providing services to the population, cargo, and passenger transportation. Furthermore, the problem of substantial tax-free incomes from the shadow economy can be solved, at least in the sphere of providing services to the population, by reducing the number of patent' holders, who might form unions. This stipulation is not yet included in the Law on entrepreneurial patent. At the same time, the number of patent' holders is decreasing, thus, at the end of 2007, their total number was equal to 2727 (Table 38).

Table 38: The number of entrepreneurial patents in ATU Gagauzia

	2005	2006	2007
Number of patents	3379	3233	2727
Number prolonged patents	12126	9836	10689
Budgetary income from the issuance and prolongation of patents (thousand lei)	1521.8	1312.8	2201.4

Source: Bureau of Statistics ATU Gagauzia

The regional law on the fixed taxation establishes a simplified system for the taxation of the economic activity. This law applies to the economic agents that are engaged in the following fields: retail trade on areas up to 20 m², activity in the field of public catering on areas up to 20 m², retail trade in the pharmaceutical field, activity of currency-exchange desks (except for the currency-exchange desks of the commercial banks), and the activity connected with the use of computer facilities (computer halls). The fixed tax includes: the income tax of the legal person, the land tax, real estate tax, payment for water, payment for the arrangement of the territory, payment for the commercial objects, and-or rendering social services. Thus, the fixed tax ensures conditions that are more favorable to the small entrepreneurs, and simplifies the taxation and bookkeeping procedures. Based on the fixed tax systems, in 2007 have activated 658 economic agents, but their number is also reducing (Table 39).

Table 39 The number of economic agents carrying out their activity in accordance to the Law of ATU Gagauzia on the fixed tax rate.

The number of economic agents carrying out							

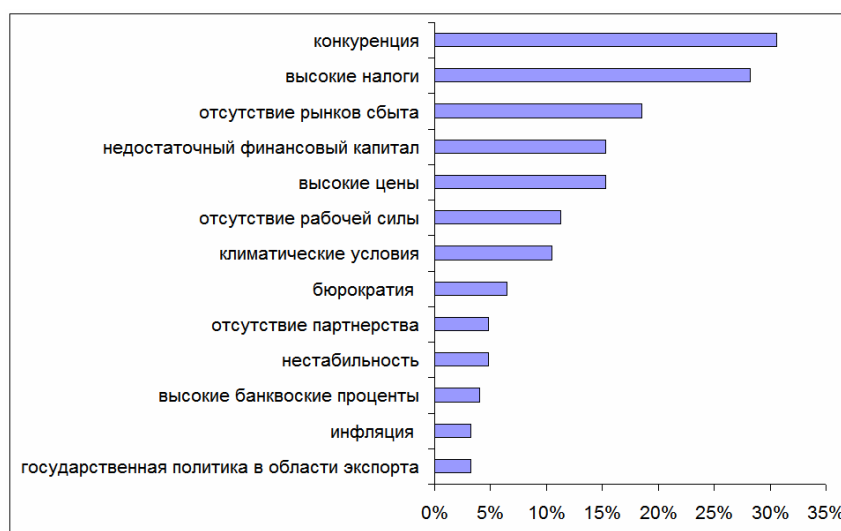
activity in accordance Law on the fixed tax rate							
including:							
Trade enterprises							
Drugstores and vet clinics							
Computer halls							
Incomes to the budget the fixed tax rate							

Source: Bureau of Statistics, ATU Gagauzia

The main problems

Despite the privileges that the National Assembly of ATU Gagauzia enjoy, and the modification in the Tax code since 2008 (the zero taxation of the reinvested profits), the economic agents consider the high taxes as one of the main obstacles in the way of expanding their businesses (Figure 34). This is caused by the large amount of payments for the state social insurance, and payments for the obligatory medical insurance. At the same time, it is not yet feasible to increase the taxable base based on reducing the size of the taxes, since in the Republic of Moldova the number of working population is decreasing in comparison to the number of pensioners.

Figure 34 The distribution of answers to the question: "What are the most serious impediments in the way of expanding the activity of your company?"



Source: The survey of companies from ATU Gagauzia

The entrepreneurs mentioned as the other important problems concerning their activity, the ones related to legislation: frequent and unpredictable changes, to complex laws to follow, high expenditures for respecting the stipulations of the legislation, the absence in some areas of precise rules (Figure 35). If the legislation of the Republic of Moldova is regularly published in "Monitorul Oficial", and it is accessible on web-sites, then the legislation of the National Assembly of ATU Gagauzia is not published, and it is not accessible on web-sites, which complicates the activity of the economic agents. In addition to this, the process of consulting businessmen about the changes in the legislation is poorly developed in the region, and in fact the "consultations" resume to simple informing.

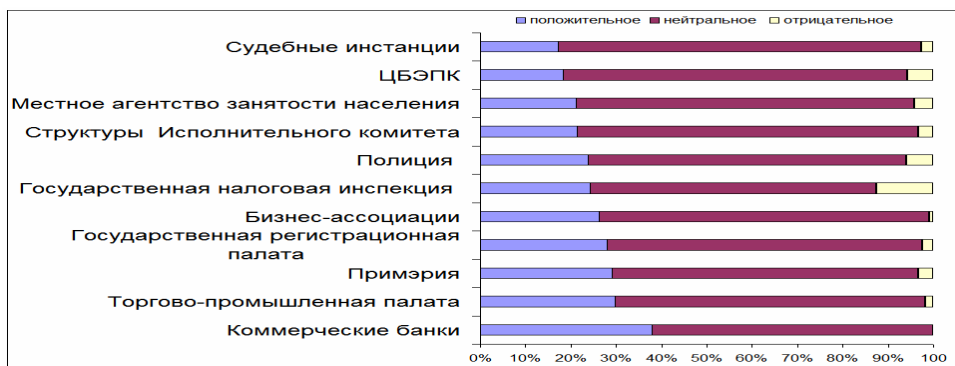
Figure 35 The distribution of answers to the question “How serious are actually the problems concerning the following regulatory aspects?”



Source: The survey of companies from ATU Gagauzia

The majority of the bodies with which the economic agents interact, seems not to have a significant influence on their activity (Figure 36). The positive influence of the commercial banks is due to the credits they offer to the economic agents; while the city halls, one of the closest bodies for the economic agents, are playing one of the most active roles in supporting the economic agents in the region. One of the main obstacles in cooperating with the city halls, the Executive Committee of the ATU Gagauzia, Commercial and Industrial Chamber, and the National Tax Inspection, is bureaucracy. The absence of qualified human resources is a serious problem for the effective work of the business-associations and the judicial bodies.

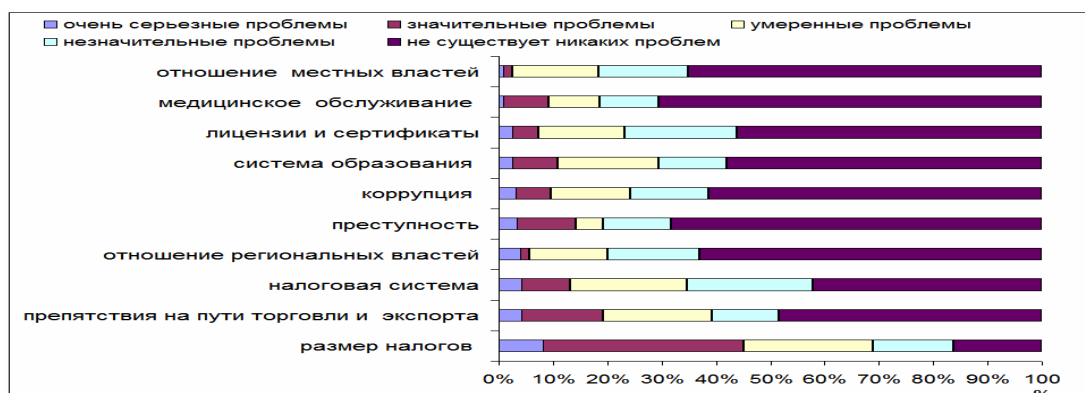
Figure 36 The distribution of answers to the question “What influence do the following bodies have on your activity?”



Source: The survey of companies from ATU Gagauzia

The development of the business environment also depends on other factors describing the general situation of the region such as education, system of public health, criminality, etc. Although the listed factors for the last years worsened, their impact in the opinion of businessmen is less than the effect of factors that have a much more direct and quick result on the activity of the companies (Figure 37).

Figure 37 The distribution of answers to the question "How serious are the problems connected with the following institutional aspects?"



Source: The survey of companies from ATU Gagauzia

The difficulties caused by the low quality of professional training of young graduates and the decline in the labor productivity due to a deterioration of the health of the population, will lead to a shortage of qualified labor force, that will create serious problems for the development of the region. The relatively cheap labor force is not attractive to investors any more, due to the decline in its quality.

CONCLUSIONS AND RECOMMENDATIONS FOR THE IMPROVEMENT OF THE BUSINESS ENVIRONMENT

SWOT Analysis 25 The Business Environment

Strengths	Weaknesses
Trustful relations between the municipal council and the economic agents	The legislative instability, frequent unexpected changes
The motivation of the regional authorities to support the sector	The frequent controls, especially by the police, remain a problem
A simplified system of activity in the trade and services (entrepreneurship, patent, fixed tax rate)	Many companies consider corruption an essential barrier on the way to developing their businesses
Opportunities	Threats
Maximal simplifications of the issues	Instability of the legislation

<p>procedure of building authorization simplification and acceleration of procedure of changing the destination of the agricultural land</p> <p>Acceleration of the issuance procedure of licenses and authorizations, and introduction of the "default" principle</p> <p>Canceling the control regime of economic agents by the police or related bodies, with the exception of criminal investigations are being carried out</p> <p>Simplification of the tax system for micro- and small enterprises, due to establishment of the fixed tax rate</p>	<p>The continuous migration of the bodied population</p> <p>The price increases for telecommunication, municipal, transport services</p> <p>Reduction of trust of the business environment for the regional authorities</p>
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There is the necessity, at the regional level, for a closer cooperation with the private sector in order to introduce modifications in the official acts regulating the entrepreneurial activity. This would make much more predictable the changes in the legislation. It would also be reasonable to create a group of the representatives of the business environment, with which to conduct consultation on the respective topics. This should be similar to the Working Group that helps the State Commission regulate the entrepreneurial activity. In this group will be necessary to include the representatives from small and medium companies, because this very sector can be more effectively adjusted at the regional level.

The elaboration of the own normative acts of ATU Gagauzia is expedient only if they are necessary and useful, and the benefits will be higher than the costs accompanying their adoption. A significant improvement of the business environment at the regional level has better chances of success by eliminating the unwritten obstacles, informal payments, and local bureaucracy, rather than elaborating own normative acts. Besides this, the acts elaborated on the regional and local level, should be regularly published both in the official publications of ATU Gagauzia, and on the official web page.

It is necessary to monitor adequately the registered and operating enterprises, but this should not increase twofold the efforts and costs of gathering the information. In this respect, it is very important to guarantee the information exchange between different basic bodies.

The majority of businessmen regard high taxes as the main obstacle in the way of developing their businesses, that is why for the small and micro-enterprises it is possible to create a simplified taxation system similar to the fixed tax rate system. For the achievement of this purpose, it is necessary to differentiate precisely the classification and control criteria over the transfer of this tax.

As it was recommended before, it is necessary essential changes in the educational system of ATU Gagauzia, mainly in the field of professional training. The region is losing its attraction for investors, because of increasing difficulties of finding qualified labor force in technical areas. In this respect, it is expedient to create a more effectively relationship between the regional administration, the professional educational institutions, and the private sector.

14. CONCLUSIONS AND GENERAL RECOMMENDATIONS: SEARCHING FOR THE DEVELOPMENT POTENTIAL OF ATU GAGAUZIA

The analysis conducted in the previous chapters helped reveal a series of systematic factors that can influence positively or negatively the further economic development of ATU Gagauzia. These factors are evaluated using a complex SWOT Analysis in the table presented below. Thus, besides stating the strengths of the region, the authors have also indicated some suggestions for capitalizing these strengths. The weaknesses are accompanied by recommendations for their elimination. ATU Gagauzia has many opportunities, but it is very important to understand how to use them effectively. In the end, the main risks of the regional development can also be reduced by an intervention in the regional policy.

These recommendation have a multi-layer nature. Some of them can be implemented within the competences provided by the Law on special status of Gagauzia. Other recommendations may prove very useful in business development and business climate improvement in the region, as well as in promotion of the dialogue between companies and local public authorities. Besides that, many recommendations can be employed by the regional authorities in dialogue with national authorities as well as donor community.

SWOT Analysis 26: The complex SWOT Analysis of ATU Gagauzia

The analyzed item	Recommendations
Strengths	How to more effectively use the strengths?
<ul style="list-style-type: none"> • ATU Gagauzia, an autonomous region of the Republic of Moldova, enjoys privileges in economic and administrative development. 	<ul style="list-style-type: none"> • Overcoming all kind of political conflicts with the central authorities of the Republic of Moldova, because the existence of disagreements in this area raises questions from the potential investors; • Full-scale implication of the autonomy in the elaboration of national development policies; • Development of own methods of analyzing and monitoring the policies at the regional level; • Development of a statistical system at the regional level that would help to take well-founded decisions about the adopted decisions; • Elimination of the district administrative level in the administrative-territorial structure of Gagauzia, that would allow to save Government resources, increase the administrative efficiency and reduce bureaucracy, alongside with increasing the administrative efficiency.

The analyzed item	Recommendations
	<p>the role and authority of the municipal council</p> <ul style="list-style-type: none"> Abandoning the economic policy' principle focusing on branches, and application of principle of eliminating the system threat affect the economic development of the (non-fair competition, corruption, poor condition roads, climatic threats)
<ul style="list-style-type: none"> ATU Gagauz has a remarkable favorable geographical position – close to the border with Romania, Ukraine, and to the important Black Sea and Danube ports, including Giurgiulesti port 	<ul style="list-style-type: none"> Searching for financial means for the reconstruction of the local roads, the poor condition of which is a serious threat for the development of Gagauzia, especially for the rural area region; Stimulating the diversification of the sales market for the local producers; Encouraging the development of active and dynamic businesspersons that would be ready to capitalize the existing trade opportunities; More active implication of ATU Gagauzia in economic cooperation with other districts from South of the Republic of Moldova Obtaining the right to participate as a member in the "Lower Danube" Euro region; Studying the Romanian and English languages in order to develop the business relations with partners from Romania and other countries from EU; Opening trade missions of ATU Gagauzia in Bucuresti, Galati, and Odessa
<ul style="list-style-type: none"> The soil and climatic conditions are favorable for the agricultural activity 	<ul style="list-style-type: none"> The application of modern and environmentally friendly agro-technology that would help to improve and preserve the regeneration and productivity qualities of the soil; Gradual orientation to an ecological agriculture to create a competitive niche for the specialization of Gagauzia; Development of primary (washing, packing) and advanced (production of canned food) processing

The analyzed item	Recommendations
	<p>capacities of the agricultural raw materials;</p> <ul style="list-style-type: none"> • Development of capacities for the collection and storage of agricultural products in a region with controlled temperature, with the aim of selling at a more favorable time; • Development of vegetable cultivation in home conditions
<ul style="list-style-type: none"> • The conditions created together with strong trade favored the wine-product sector 	<ul style="list-style-type: none"> • The gradual renewal of old vineyards with newly planted with precious varieties recognized in the EU market; • The cooperation both between the producers in ATU Gagauzia, and with other producers from the Republic of Moldova with the purpose of creating a joint promotion strategy of wine brands on the western markets, and the geographical diversification of their exports. • Private or joint investments into market research finding the possible niches for the wines from Gagauzia; • The simplification of the vertical integration of growing and winemaking; • Searching for specialized external consultation in the EU countries (flying winemakers) with the purpose of combining the advanced technologies with the winemaking tradition in ATU Gagauzia
<ul style="list-style-type: none"> • The labor force in ATU Gagauzia is relatively cheap than the average indicator in the country, however this is only a term advantage 	<ul style="list-style-type: none"> • Encouraging the territorial mobility of labor inside ATU Gagauzia; • The development of a system of professional education and training inside ATU Gagauzia by admitting on the market new private and public bodies
Weaknesses	How can we eliminate them?
<ul style="list-style-type: none"> • The network of national and international roads 	<ul style="list-style-type: none"> • The National strategy of land infrastructure in the repair or reconstruction of national roads

The analyzed item	Recommendations
<p>roads ATU seriously worse that entails direct and indirect costs for companies population seems that the most threat in the of developing region)</p>	<p>are crossing through ATU Gagauzia; the regional authorities should do monitoring of the realized tasks important for the autonomy</p> <ul style="list-style-type: none"> • The local and regional authorities should allocate budgetary resources for the reparation of the road infrastructure (20 mil lei per year during 2019) • The repair of roads should be done within the framework of international tenders in order to secure quality of the work • The maintenance of roads can be transferred to private companies, which will be responsible for road condition within the limit of resources allocated according to the contract, which should be periodically revised (once in 3 years), depending on the quality of executed work.
<ul style="list-style-type: none"> • The health situation of the population in ATU Gagauzia is worse than in other parts of the Republic of Moldova, including the South region of the country. 	<ul style="list-style-type: none"> • Improvement of the ecological situation in the autonomy, and, first of all, the evacuation of chemical and electro technical waste stored in the Cismikioi village. For this purpose, the regional and local authorities should elaborate a project for ecological intervention, and propose it for financing to the international organizations. For the successful implementation of this project it is important to emphasize the elimination of cross border pollution created by these wastes (three countries, Danube delta) • Education of personal responsibility to one's health by organizing campaigns and social advertising aimed at various social groups: youth (refusal of tobacco smoke), peasants (refusal of excessive consumption of alcohol), and future mothers (information about health of newborn). • Attraction of local and foreign, both public and private investments for the implementation of projects on constructing the water supply and water drain infrastructure, including the water supply infrastructure for the countryside. These investments are also possible to attract in the framework of public-private sectors partnership; • Monitoring of the cattle-breeding and production

The analyzed item	Recommendations
	<p>breeding nurseries near the individual facilities of the population, with the aim of preventing the trickling of cattle-breeding waste into the environment situated nearby;</p> <ul style="list-style-type: none"> • Establishment of municipal or state enterprise responsible for the removal and management of waste, which will render services to all members of the community based on individual payment for services.
<ul style="list-style-type: none"> • Despite the existence of a wide system of professional training, this system is not effective and it is not adjusted to the needs of the regional economy. 	<ul style="list-style-type: none"> • In the three professional educational institutions (colleges, and the university), it is necessary to create tutoring and consulting commissions consisting of parents, representatives of local regional administration, and directors of enterprises. This measure aims to increase the interdependence between the study curricula and the real needs of the students and employers; • At the State University from Comrat it is possible to open branches of Moldavian and other universities, that will guarantee the preparation of specialists in the technical field required by the regional economy; • Teachers and students of State University from Comrat and the Agro-technical college from Svetlii should actively participate in the exchange programs in EU countries (Tempus, Erasmus Mundus); • The existing six professional educational institutions should include in their curriculum courses of practical management, adjusted to the needs of students. Such type of courses will help students develop the necessary knowledge in order to open their own business.
<ul style="list-style-type: none"> • The investment means are physically worn and morally worn, which is causing the absence of investments. 2003-2007 	<ul style="list-style-type: none"> • Maximal simplification of issuing business authorizations; simplification and acceleration of the process of changing the destination of agricultural land; • Acceleration of the licenses and authorizations issuing procedure, and the introduction of the "default" principle which states that the active

The analyzed item	Recommendations
<p>investments fixed capital ATU Gagauzia increased with lowest rate country.</p>	<p>start if in the time limits stipulated by the legislation was not received a clear negative answer from the authorities;</p> <ul style="list-style-type: none"> • Prohibition of the verification done by the police and other related bodies, with the exception of cases where these bodies have an official authorization to carry out a criminal investigation; • Simplification of the tax system for all small and medium micro-enterprises as a result of establishing the same tax rate; • Simplification of renting the state property exclusively to the economic agents that are registered in ATU Gagauzia; • Participation of the representatives from the Executive committee and companies from ATU Gagauzia in all investments forums organized by the Government of the Republic of Moldova; • Establishment of relations with big international corporations, and stimulation of direct negotiations with them with the aim of opening production on the territory of ATU Gagauzia; • Creation within the State university from Comrat of an Investments-Consulting Center that would provide consulting services to companies (realization of business-plans, financial analysis of the company, development of business-plans, development of investments, evaluation of human resources, conducting marketing researches). This Center should function itself based on the services rendered, and receive deductions from the Executive committee and donors. The creation of this center within the university is the single solution that would ensure long-term functionality, the development of local and dynamic businesspersons, and introduction in the business environment of advanced methods of corporate management; • Attracting in the region the branches of the national companies in the field of agricultural leasing; • Improvement of the investment "image" of the region.

The analyzed item	Recommendations
	Gagauzia in the world
<ul style="list-style-type: none"> • ATU Gagauzia is remarkable through its national and international economic, investments, trade "in none of companies the region out an marketing strategy on Internet. 	<ul style="list-style-type: none"> • Participation of companies from ATU Gagauzia in the business forums organized both in our country and abroad; • Creation of a modern and functional Internet-portal of ATU Gagauzia, in which information is presented in several foreign languages of regional and international importance; • Development of a marketing strategy for the University from Comrat that will help this university become attractive not only in the region, but also in the country, and abroad; In this respect it is necessary to create a modern and functional Internet-portal of the university; • Reviewing the web-site of Trade and Investment Chamber of ATU Gagauzia with the purpose of updating, translating, and presenting information for the local and foreign investors in English language; • For the public tenders it is reasonable to advertise not only in the regional, but also in national media; • The leading companies from the autonomy should develop simple, but informative and functional web-sites, which is an integral and important component of a modern company's image.
Opportunities	How can we use them in the economic field?
<ul style="list-style-type: none"> • The European Union has granted access to the Republic of Moldova into trade preferences 	<ul style="list-style-type: none"> • The companies from ATU Gagauzia can have a significant share in the volume of wine export and other alcoholic beverages from the Republic of Moldova to the European Union; • It is necessary to introduce the EU quality and safety standards in all companies that will export their production in the EU
<ul style="list-style-type: none"> • ATU Gagauzia has a significant potential 	<ul style="list-style-type: none"> • The large number of sunny days and the long duration of sun shining significantly favor the development in ATU Gagauzia of the cultivation

The analyzed item	Recommendations
renewable resources	<p>vegetables in hothouses on a large scale;</p> <ul style="list-style-type: none"> • In the agricultural sector there is plenty of which can be used directly or as a briquette in and thus less expenditures on energy are needed; • The agricultural wastes of animal origin can be filtered and collected in simple installations with the purpose of obtaining the biogas; • Design and testing of some wind power stations in the Western part of ATU Gagauzia; • Possibility of collecting and using the solar energy for the heating of water in state institutions, schools and hospitals
<ul style="list-style-type: none"> • The end construction of the Giurgiulesti terminal and a new opportunity for the oil refining from Gagauzia, and export of production to 	<ul style="list-style-type: none"> • Developing facilities needed for the production and export of goods; • Developing oil refinery facilities for the production of fuel and other chemical products; • Training the labor force and the need for specialists in the State University from Comrat, inviting teachers from Romanian and Ukrainian universities
<ul style="list-style-type: none"> • In ATU Gagauzia it is possible to develop a variety of services that currently do not exist, and the existence of a market for them 	<ul style="list-style-type: none"> • It is possible to develop the following types of services: taxi, cleaning, dry-cleaning, and other services; • Expanding the network of supermarkets in the region, which will cause the appearance of complementary services for them; • The State University from Comrat can open training courses for companies in the field of Marketing services offered to the population; • In ATU Gagauzia it is a critical need for private courses on studying foreign and Romanian languages as a result of an increasing demand for the educational services; • Creating a wine route in which will be included

The analyzed item	Recommendations
	<p>main wineries;</p> <ul style="list-style-type: none"> Supporting the development of consulting services rendered by economic agents (including services of consulting, training, and profiling labor force)
Threats	How can we reduce them?
<ul style="list-style-type: none"> The agricultural ATU Gagauzia often exposed to dangerous meteorological factors; the greatest danger bring the strong winds, hail, droughts (once in 3 years), and floods. The resources are available in the region are not enough for protection of agriculture during a drought 	<ul style="list-style-type: none"> It is necessary the wide application of insurance of the agricultural cultures (a significant amount of insurance payments can be covered by the Government of the Republic of Moldova); Through a cooperation with the National meteorological Service it is necessary to reorganize the regional system of forecasting and notification; Within the Agro-Technological College from Svetlii it is necessary to open a Center of Agricultural Consulting, financed from attracted or own sources that will render consulting services in the field of agriculture, including measures of protecting plants that can strengthen plants' endurance; Considering the shortage of water in the autumn and the negative historical experience (in some times), at the regional level it is not recommended to carry out irrigation on large-scale; consequently of droughts can be reduced by adjusting cultivated agricultural crops to a more favorable climate, and the introduction of effective systems of irrigation on small pieces of land (drop-by-drop irrigation); One of the cheap ways to protect sensitive plants from the effects of hailstorms is to cover these with a protective grid for the period of maximum threat
<ul style="list-style-type: none"> In comparison with other regions of the Republic of Moldova, Gagauzia is remarkable 	<ul style="list-style-type: none"> Strengthening the competitive advantage of the dominating sector (production of alcoholic beverages) through introducing high sanitary, technical and qualitative standards, and the advanced management systems (ISO);

The analyzed item	Recommendations
<p>through the diversified economic structure, in the product alcoholic beverages the leading r</p>	<ul style="list-style-type: none"> • Supporting the vertical integration of the growing and wine-making in order to guarantee quality control on all steps of production chain • Diversification of alcoholic products' export, particular to Northern Europe, China, India, East – in this specific case attention export of low-alcohol-content drinks); • Assimilating the possibilities of producing and exporting the non-alcoholic and low-alcohol content drinks made from grape beverages; • In the long-term – integration of wine growing and wine-making areas of ATU Gagauzia in the national and international tourist system for the combination of operational activity with the incomes from tourism industry; • In the long-term – reducing the dependence of economy through stimulating investments in other branches than the manufacture of alcoholic
<ul style="list-style-type: none"> • Migration from Gagauzia reached high levels, and further continuation can aggravate shortage of labor force, under the opportunity of an economic steady growth 	<ul style="list-style-type: none"> • Increase of salaries, ensuring the labor force not only from the neighboring regions to ATU Gagauzia can be used by the companies from the autonomous • Development of labor force re-training programs in order to prepare specialists in the areas demanded on the labor market (in particular, the service sector); • Significantly simplifying the regulatory mechanism in order to stimulate the emigrants that periodically return in the country open micro- and small enterprises, in particular in the field of construction and internal repair work (it seems that the emigrants from ATU Gagauzia, working in the Russian Federation, have gathered considerable experience in this area); • Creating economic opportunities mainly for women and youth by attracting investments in both traditional and new sectors of the economy; • Mitigation of the negative social consequences of the migration phenomenon through tutorship

The analyzed item	Recommendations
	<p>supervision programs aimed at the child migrants;</p> <ul style="list-style-type: none"> • Creating conditions for a steady increase of by reducing the administrative and expenditures
<ul style="list-style-type: none"> • There is still that companies emigrate from autonomy 	<ul style="list-style-type: none"> • Strengthening the level of trust of companies regional authorities by creating a simple, p and stable investments framework; • Revision of the legislative documents the sensitive to the businesspersons (for example law on the industrial policy), rejection of principle that the industrial policy should focus on sectors in favor of the principle that the industrial policy should focus on the general development strategy of the industry as a whole; • Creation of local brands (in the textile industry inclusively by using the local design and manufacturing capacities; • Reduction of the indirect and administrative expenses related to the realization of business export of industrial output; • Improvement of the educational and technological process according to the investors' needs; • Improving the "image" of ATU Gagauzia Republic of Moldova, and preparing a practical of information for the potential investors regional economy
<ul style="list-style-type: none"> • Companies ATU Gagauzia extremely adapting to introduction new industrial marketing technologies basically do use communication technologies 	<ul style="list-style-type: none"> • Attracting assistance projects for the development of the consulting services; • Organizing within the consulting centers of training programs in the areas most demanded companies (accounting, marketing, etc.), and transition of these centers as soon as possible financing; • Direct negotiations with companies from regions of the country to enter the services

The analyzed item	Recommendations
element of business	of ATU Gagauzia
<ul style="list-style-type: none"> • The price in for the resources in a direct both on economy and population 	<ul style="list-style-type: none"> • The State bodies, private companies, households should reasonably consume the energy; • Collection of vegetative waste with the purpose their condensation and use as a briquette heating state institutions (schools, kindergartens, hospitals, etc.); • Development of capacities for producing electricity and thermo energy from renewable resources and solar energy)

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